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ABSTRACT

Individual lifelong learning accounts (ILLAs) promise to improve the way postschool education and training is financed in the United Kingdom. ILLAs should comprise three distinct functions: save to learn (all individuals would be allowed to save into a special account dedicated to learning); borrow to learn (account holders could borrow for learning through overdrafts or medium-term loans); and credit to learn (account holders would be allowed to gather vouchers or credits to buy or partially pay for specified learning). ILLAs would be held and operated by individuals on a lifelong basis, and only the individual ILLA holder would have the authority to use the account for spending on learning. The proposed model for ILLAs would allow single learning transactions to be financed with funds from savings, loans, and vouchers/credits. The proposed ILLA system would encourage individual commitment to learning, support the development of social commitment to learning, and give lifelong learners a long-term stable financial context in which to seek guidance and pursue a progressive learning plan. Britain's government has shown considerable interest in the potential of voluntary ILLAs and will likely develop a three-function prototype ILLA infrastructure aimed at people in the workplace. (Contains 11 figures) (MN)

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Individual lifelong learning accounts

towards a learning revolution

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Individual Lifelong Learning Accounts:

Towards a Learning Revolution

Jim Smith and Andrea Spurling

NIACE
THE NATIONAL ORGANISATION FOR ADULT LEARNING

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NIACE, the national organisation for adult learning, has a broad remit to promote lifelong learning opportunities for adults. NIACE works to develop increased participation in education and training. It aims to do this particularly for those who do not have easy access because of barriers of class, gender, age, race, language and culture, learning difficulties or disabilities, or insufficient financial resources.

The NIACE website on the Internet is http://www.niace.org.uk

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Contents

Executive summary	vii
Introduction	1
Chapter One The case for cultural reform	3
Chapter Two The ILLA in outline	16
Chapter Three The workings of the ILLA system	31
Chapter Four The learning card	49
Chapter Five Implications of the ILLA system	56
Chapter Six A strategy for the millennium	70

Table of Figures

Figure 1: Key assumptions	17
Figure 2: The three functions of the ILLA	18
Figure 3: Save to learn	20
Figure 4: Borrow to learn	22
Figure 5: Credit to learn	24
Figure 6: Basic ILLA model systems map	32
Figure 7: Credit lines at credit agency - person X	39
Figure 8: Reporting to the ILLA holder	46
Figure 9: ILLA consolidated cash account	47
Figure 10: Key financial ingredients of the prototype model	72
Figure 11: The prototype and the full ILLA system	73

Executive summary

The idea that post-school education and training in the UK might be fundamentally reformed through the development of individual learning accounts has been discussed many times. It has been argued that this could increase flexibility, responsiveness, access and participation, but to date there has been little hard analysis of the idea of the learning account.

The meaning of learning accounts

This book aims to help to fill this gap by presenting a model of how a system of accounts might work, and why it would be desirable. It proposes that accounts should comprise three distinct functions:

Save to learn allows each individual to save into a special account dedicated to learning. The State contributes to the account (probably through tax relief) as an incentive to encourage saving for learning.

Borrow to learn allows the account holder to borrow for learning, through an overdraft or, for larger sums, it through a medium term loan with repayments spread over several years - like a student loan or a career development loan. Again, the State would support this learning-related borrowing, probably through tax relief.

Credit to learn allows the account-holder to gather vouchers or credits to buy or part pay for specified learning. The financial credit is a promise to pay, issued - subject to conditions - by an employer, or public body, or charitable organisation, or even by an individual. It is kept in a special holding register until the learner spends it on learning which meets the conditions laid down.

Credits are what their issuers make them. Some are very flexible and can be spent on virtually anything. Others are very restricted and must be spent within a defined time, or on a particular course, and so on.

ILLAs - a new infrastructure for the UK

An ILLA is an integrated learning account offering *all three functions*, held and operated by an individual on a lifelong basis, and only the individual has authority to use it for spending on learning.

Two particular features of the proposal are worth emphasising:

- the possibility of running the three functions together to provide *mixed funding*, so that a single learning transaction can be financed a bit from savings, a bit from borrowings and a bit from credits.

- the *multi-sourcing* of learning, which will encourage employers, public bodies and other organisations to use the accounts to help individuals to pursue learning which is of mutual interest. It will also allow individuals to support each others' learning through donations and transfers between ILLAs, and through guarantees for loans.

Full development studies are needed to determine the details and costs of such an infrastructure, but the broad shape is clear.

The whole financial services sector would be able to operate ILLAs, according to a common framework but with organisations competing on the detailed terms (as with TESSAs). Those managing accounts would include local community organisations, able to offer a highly personal service in particular communities. Government support would be long term.

The credit part of the system would probably be operated by a central agency acting for all the account managers. Details of each individual's credit account would be fed down the wire to the financial services organisation managing it.

ILLAs and culture change

The case for ILLAs is based on the need for a major shift in the present culture of learning. For many years our culture of learning has been too focused on raising the elite, rather than establishing a broad base of basic skills and knowledge across all sections of society; and it has been too concentrated on initial learning, with participation declining in later years.

This culture makes no sense in the modern global economy and digital age. Unless it is abandoned social exclusion will continue to grow apace, and efforts to maintain comparative advantage in high value traded goods will be at risk. There must be more learning by *all* sections of society, not just the well educated classes. Moreover, such is the pace of change that people need to learn continuously through life, and abandon the old idea that after initial education adults could coast through their careers on the basis of job experience.

Changing the culture will call for a fundamental reform of the financing of learning itself. In all their chaos and complexity, present arrangements confuse and exclude, reflecting and sustaining the present culture, discouraging particularly those who have benefited least from education, and who are at greatest risk of exclusion from learning, and thus from the mainstream of society itself.

Individual Lifelong Learning Accounts would address this by creating a new lifelong, cradle-to-grave financing infrastructure for the whole of the UK. They would provide the basis of a new 'psychological contract' between the individual and the State. It would be as if learning had entered into National Insurance, alongside unemployment, sickness and retirement support.

The State would encourage the individual to use the ILLA account to pursue lifelong learning as a personal responsibility, but it would pledge to support people's learning efforts, with tax relief and other incentives. State support would aim to shift the chronic under-investment in learning, and challenge the biased distribution of learning activity in the present system.

The implications of ILLAs for culture change

The cultural implications of ILLAs are threefold:

- it is a defining feature of a new mass culture of lifelong learning that individuals should be in charge. The ILLA infrastructure gives the individual just that role. This is *individual commitment to learning,*
- the proposed system would also help organisations and individuals to spread learning from person to person, in the community or in the workplace, supporting the development of *social commitment to learning,*
- lifelong learners would have a long term stable, financial context in which to seek guidance and to pursue a progressive learning plan. The ILLA system offers this *lifelong continuity* as well. Unlike the plethora of schemes and initiatives which flit across the contemporary learning scheme, people would grow up with ILLAs, and use them to share their growing knowledge and experience with others.

ILLAs would stimulate individuals to invest in their learning, as they invest in their housing, on a long term planned basis By making it easy for the relatively prosperous to manage their own investment, it would free public resources to concentrate on drawing poorer and more disadvantaged learners back into learning, through the use of credits within the ILLA system. There would be a progressive switch of public money from block funding of institutions through funding councils towards credits for targeted individuals.

The case for ILLAs is therefore that they support individual commitment and social commitment to learning; they provide a stable framework which can support a lifelong learning strategy; and they enable total resources to grow and to be redistributed as the mass lifelong learning culture requires.

It can be done

Learning accounts have often been proposed as a means to open up the UK learning system. But until recently there has been little confidence that a national system could be operated in practice. Hence the emphasis of small scale partial systems of accounts, sponsored by local Training and Enterprise Councils, and occasionally by employers. Such schemes tend not to last; they lack economies of scale; they suffer from difficult boundary problems; and they lack the impact which a national system should.

What has changed the picture radically is the arrival of the smart card, the new technology of the Internet, and the rapid establishment of the 'loyalty points systems' of incentives in the retail sector. Technologists and financial experts now agree that a broad based system of ILLAs *can* be created, spread throughout the entire financial services sector, with the learners using smart cards as the key for the authorisation of learning transactions and the claiming of tax relief.

Individuals holding ILLAs would negotiate learning transactions with learning and guidance providers, using the smart cards to authorise purchase. Transactions would cover course fees, as well as support services, materials and equipment. The smart cards would also give access to a qualifications data base, and to records of achievement for the learners, and could also be used for a variety of purposes associated with learning - entry to libraries and college facilities, personal identity, collection of retail loyalty points etc.

Implementation

Government has shown considerable interest in the potential of voluntary individual learning accounts. They have supported initial feasibility studies, enquiries with the financial services sector, undertaken initial market research, and consultations with leading interests in the learning market.

It now seems likely that the Government will develop a three function prototype infrastructure aimed at people in the workplace. Over a run of three years up to the end of the current Parliament the One Million Targeted Accounts promised in the Labour manifesto would provide a vital bridge to more general use of the infrastructure in the long term.

It would be reasonable to assume that the financial services sector will support this model, holding savings and putting money into loans. But the sector will only do this if it sees a clear commercial interest for the medium to long term. They must therefore be confident that:

- the prototype will develop in time into a full cradle-to-grave system;
- Government will dovetail the development of ILLAs into a total strategy for lifelong learning.

Government must give clear signals of its intentions on these two matters, if it is to maintain support from financial services organisations.

This book makes the case for the Government taking the long term view on ILLAs. If the Government wants people to commit to a lifelong strategy of learning, it must shake off its own cultural predispositions for schemes of incremental development, and make a matching commitment itself to a step-change in the nation's learning arrangements.

Introduction

We have written this book as a contribution to the work of the National Advisory Group on Continuing Education and Lifelong Learning. Set up in July 1997 under the chairmanship of Professor Bob Fryer to advise the Secretary of State and Ministers for Education and Employment on lifelong learning, the Group's first task is to advise on the White Paper, to be published in late 1997, which will inform the Government's strategy on lifelong learning.

The view we wish to offer the Group is that the Government's aims for the people and economy of the UK can only be realised by radical change. The existing fragmented, provider-led arrangements for education and training must be replaced by a responsive, learner-led system; and a culture of lifelong learning must be developed. Policies to achieve a change of this magnitude will need to be designed thoroughly. They must have the range to support individuals' learning from cradle to grave, and the reach to cover the whole of society. At every level, and for learners of any age, they must be embedded in neighbouring areas of policy affecting organisations' attitudes to lifelong learning.

In this volume we look at the funding aspect of a lifelong learning strategy, and set out the case for the development of a funding infrastructure to promote the development of a lifelong learning culture in the UK. The core of the model is a system of individual lifelong learning accounts (ILLAs) carrying *Save to Learn*, *Borrow to Learn* and *Credit to Learn* functions. First we examine the reasons why the UK must have a new infrastructure. We then set out proposals for the ILLA system in terms of functions, activities and technology. Next we show how the system will address the factors which make for a successful strategy. We conclude with an overview of the ILLA system as a staged implementation strategy, starting with a prototype model and extending by stages to the full model.

The National Advisory Group provides, for the first time, a forum for the many people and organisations interested in lifelong learning to put their views forward on models for learning accounts. We hope that the arguments presented here will enable readers to make their views known to the Group.

We are grateful to NIACE for suggesting that we write up our ILLA model, and for undertaking to publish it. Our thanks also go to members of the MC Research Consortium, which supported our work at a formative stage. Responsibility for the content, however, remains with us.

Jim Smith and Andrea Spurling

September 1997

Chapter One

The case for cultural reform

Growing numbers of people in the UK are calling for radical cultural reforms. In this book we lay out an argument that puts us among them. It has three key points:

- first, that the UK has no option but to engineer a total revision of our current culture of learning, towards mass lifelong learning;
- second, that a new financing infrastructure is needed to support mass lifelong learning - one which offers everyone an individual lifelong learning account (ILLA);
- third, that the ILLA infrastructure is necessary, but not sufficient to induce the culture change. A broader strategy is needed.

In the first chapter we address each of these points in turn. In later chapters we shall examine ILLAs in detail.

The need for a culture change

Replacing the current learning culture with another is no mean undertaking. Before we can discuss it, it is important to clarify the kind of operation it is.

Culture means a society's general attitudes and values, and the practices and relationships that flow from them. *Social systems* express the cultural attitudes and values of the societies that give rise to them. Anybody proposing to replace a prevailing culture and its systems with another, as we are, must be clear about the attitudes and values they wish to promote.

Our intention is to contribute to the establishment in the UK of a culture of lifelong learning which will promote and maintain national prosperity and social cohesion. In order to do this, policy makers have to look at the values and attitudes which would represent that culture, as well as the institutional and financial machinery which would allow it to operate. Their task, and our task in this book, is to design mechanisms which dovetail into, express and reinforce those attitudes and values. We must therefore first be clear what the starting point is: that is, the conjunction of attitudes and institutions which make up the current culture of learning.

The current culture of learning

The established educational system in the UK bears the strong imprint of the sectional needs of the middle classes. Career success for the few at the leading edge is supported by a long trailing edge of failure for most:

- **one third of the population cohort** can now go to university and gain access to the most secure and best paid of the jobs on offer at professional and managerial levels;
- **one third** emerge from school undereducated, more than half of them illiterate and innumerate, set up for lifelong non-learning;
- **one third** falls into a twilight world in between.

In this system, those who learn systematically are primarily the young. Even in the face of unparalleled change in skill requirements, arrangements are still geared towards initial education, followed by a long period of work. For most adults, except where professional bodies and employers have encouraged managers and professionals to continue their professional development, further learning is not of the essence. In the learning stakes, it is those who already have the most who get the chance for more.

The causes of inequality in the formal educational system persist. The processes of early selection for success are less overt than they were a generation ago. But the underlying criteria are the same, and are all the more difficult to tackle for being indirect. Competitiveness among learning providers - themselves driven by national league tables and top-down funding structures - favours the minority.

The rewards of higher education are large, and enable those who already benefit to continue to learn. They ensure that the children of those who benefit have above-average opportunities in the rising generation. But this virtuous circle, for a minority in our society, is geared to a vicious circle for many of the rest - condemning them to growing exclusion from a rewarding economic and social life. The initial education system, for all its positive points and 'gold standards', serves to pull society apart rather than to bind it together.

For most people, the insidious effects of early failure in the formal system continue to undermine motivation for learning - throughout life, and generation on generation.

This view of the present culture is one where the participation in learning has a narrow base. Although the minority are elevated to high levels of academic achievement, large numbers fall permanently by the way. This is a culture which fails three times over: it delivers too little learning; it concentrates learning in

childhood and youth; and it divides the nation into learners and non-learners, who are poles apart.

In the past, the system provided enough highly educated people to run the empire, the church and the noble professions. The rest, including those developing Britain's industrial power, had to make do. Because the pace of technological change was not so rapid, initial education plus informal experiential learning made do for a lifetime. The shadows of these arrangements fall across our educational institutions, and across the population at large. The sheer persistence of the exclusivity and front-loading of the learning process - through all the modernising and revamping - is remarkable, as both the Kennedy Report[1] and the Dearing Inquiry[2] have recently noted. Drop it how you may, and from whatever height - the cat always lands back upwards.

This state of affairs harks stubbornly back to the past, and is totally out of joint with the times. Overall it does nothing to reflect Britain's development, from an Anglo-Saxon monoculture to a multicultural union involved in political devolution, grappling with rapid technological and economic change. It does nothing to heal the divisions in society; and it does nothing to restore Britain's economic competitiveness.

A mass culture of lifelong learning

In opposition to the *current culture of learning*, we set the idea of a *mass culture of lifelong learning*. This phrase has been too often used as a mere rhetorical flourish, implying little more than a large increase in post-initial learning of the kind which scores well against universal national targets. But that is not the meaning we give to it here. If we could squeeze more and more qualifications out of the current learning culture, we would get a *volume increase*, but that would not necessarily produce any shift at all in the *pattern of participation*, or indicate the arrival of *lifelong* learning. It could simply reflect an increase in the number of disconnected episodes of learning.

We define a mass culture of lifelong learning in terms of several interrelated strands:

- learning includes formal and informal learning; and there are no restrictive boundaries relating to the motives people have for learning. All kinds of vocational and recreational learning, in so far as they can be distinguished, are included;

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[1] *Learning Works - widening participation in Further Education*, FEFC, June 1997

[2] *Higher Education in the Learning Society*, National Committee of Inquiry into Higher Education, HMSO, July 1997

- a mass culture means that learning is spread widely across the population, with few (if any) no-go areas. Learning is so pervasive that it defines the whole society. In the same sense as 'Wales is the Land of Song', so the UK could be the 'Land of Learning'. Not absolutely everyone in Wales is constantly breaking into song, but song completes the cultural identity of the nation;

- *lifelong* learning means that learners plan and undertake progressive personal programmes of learning over time. Continuity is a cultural principle. A thousand episodes of learning is not the same thing as a hundred individuals, each building ten episodes cumulatively each over a number of years, according to a rolling personal plan of learning. Until this continuity is evident, and until learning is spread more evenly across the age groups, the UK has no culture of lifelong learning.

So much might be readily agreed, and objective tests could be applied to establish if these are met. But it is not enough. We would set further definitional tests of a more subjective nature. Having more people, of more kinds, taking part more continuously in education might simply mean more activity expressing the current - failing - learning culture. A qualitative change is needed, reflecting a change in people's hearts and minds. Such a change will show:

- that learners are *individually committed* to taking responsibility for their own learning; and

- that learners are *socially committed* to making the best of their opportunities in influencing others to learn and to apply their learning better.

These critical tests of commitment must also be applied to the institutions and other stakeholders which support the lifelong learning culture. The UK cannot be said to have a mass culture of lifelong learning until the educational institutions and providers, the unions, the employers and the Government itself show evidence of being committed to helping learners to exercise individual and social commitment. For a society to be free it is not enough for a people to be free in their minds: they must be free in their institutions. So it is also with learning.

Lifelong learning is therefore a complex structure, including objective and subjective elements.

Getting from here to there

The gap between the current learning culture and a mass culture of lifelong learning is profound. The intentions of the current culture refuse to be disturbed. It seems to be gimballed, like the mariner's compass: no matter how

fierce a buffeting it receives, cultural equilibrium is maintained, and learning ploughs along the same old course.

This culture contains two separate subcultures: learning and non-learning. As educationalists know full well, non-learning is a self-perpetuating narrative, where non-learners rehearse their self-fulfilling stories and experiences, renewing and confirming their conceptual trap. Much the same can also be said about learners, in the current cultural context. Most are still not lifelong learners; their stories define them as successes in a sifting process.

Both these self-reinforcing systems have to be disrupted to allow a shift to a new culture. Policies for gradual change - even a large number - are unlikely to do more than scratch the surface. People with experience of culture change in organisations habitually point to the need for a holistic, root and branch, approach. It must not be roughly applied; but it must be determined in intention, and tenacious in its grip. It is the same for learning: only a multifaceted, through-designed, integrated strategy for transition can have any real prospect of success.

Why must the culture be changed?

The task of changing to a mass culture of lifelong learning is a huge challenge. It is tempting to hope that it could happen naturally, but we believe it will not - certainly not on any acceptable time scale. So the change has to be *made*, and the reasons for it are compelling.

Two factors come together to make the case for change: the threat to the UK economy from globalisation; and the ever-growing threat of social exclusion for a large minority of UK citizens. As the Kennedy Committee made clear in their report, these two factors are linked, and solutions to them must work on both parts of the equation at once. We shall start by looking at each in turn.

The economic need for lifelong learning

New technologies, and the rate at which they develop, have shifted the tides of poverty and ignorance, and 'globalisation' has redrawn the economic map. In the face of this it is critical for the UK to find a way to replace its historic strength in *accumulated knowledge* with the vital force of a *thirst for learning*. In the medium to long run, there is nowhere for the UK to hide to from the threats of the changes now to be seen. Increasingly countries are competing directly on technology and knowledge, and on the innovation and flexibility of their firms and their labour. Countries which are quicker to the draw in using their knowledge are those which will survive the best.

The competitive advantage of nations now lies with their effectiveness in building and applying the skills of their labour. Considerations which were

hugely important in the past - namely, endowments of natural resources; location; or the quality of the physical infrastructure and the capital stock in manufacturing - no longer determine pre-eminence in trade performance. Modern information-based technology and telecommunications - and the skills that go with them - are now the critical factors. All are readily available on a global basis. What makes the key difference to the competitive advantage of particular countries is their ability to apply their skills and learning creatively and flexibly, and to keep ahead in the race to produce new technologies and high value-added innovations.

In these conditions it would be easy for the UK to languish in the so-called 'low skill equilibrium', and just run down the business. Without a concerted effort, focused on learning, Britain will drift down the league tables of world trade, with the product mix gradually falling away from the high-value, high-technology leading edge.

If this is to be avoided, the economy has to be pitched at the high value-added end of the spectrum of goods and services. Our contention is that, over the longer run, such a position can only be held on the basis of a 'lifelong learning revolution'. UK businesses have to go into the world's market places - including the domestic market - armed with labour forces full of lifelong learners.

This revolution needs employers with a *company-wide* commitment to lifelong learning, for the skill demands are not just for experts. Modern economies must have all-through skills, from the board room to the shop floor. These are as much about general education and learning to learn as they are about specialist and technical knowledge - and the need for good communications is no respecter of formal status. Learners at every level must have a good grounding in basic skills, and keep learning continuously, if they are to keep up with the pace of change.

The quality of an organisation depends on the quality of its workforce *in its entirety*. The most successful football teams, for example, do not thrive on raising the skills of the few star players only. They need *all through* skills, because even the stars need to interact with the rest of the team if they are to shine. Coaches know they have to develop the skills of the whole team, as well as train selected talents.

At the same time, and by the same token, the workers themselves are also under challenge. The down-side of the globalisation of the world economy is the growth of a labour market much more uncertain for most workers than anything they have known before. They want to apply their talents and have good pay and job satisfaction while in work, but increasingly they want to maintain employability. The vagaries of the so-called 'flexible labour market' mean that workers are now likely to have a viewpoint on learning quite differ-

ent from that of the employer, even if that employer works to the Investor in People standard.

Those workers who take charge of their own personal learning strategy on a continuing basis will survive best in today's labour market. They need to have 'individual commitment to lifelong learning', if they are to not see their different needs submerged by those of employers.

Indeed, if workers do not resist settling for the 'just in time' training demands of employers, and insist on support for the broader needs of their lifelong learning, employers will themselves fall into difficulty. They will not be able to look so readily to the wider employment market to draw in relevant skills 'off the shelf'. The skill mix of the UK needs to balance the demands of employers with employees' keen pursuit of their own needs and aspirations. The commitment of the employer and the commitment of the individual *are both* needed to do this properly.

As individuals, employees need to stick together to support each other in learning. At the organisational level, employers and employees need to stick together, through the integration of lifelong learning and work.

The social need for lifelong learning

> *There's nothing for us Outside. All me mates are Inside. Me brother's in gaol. If you get thirty quid when you go out it goes nowhere. You gotta start thieving again - what else is there? Everyone's doing it. At least in here you get to eat regular.*
>
> *(Detainee, Her Majesty's Pleasure,*
>
> *BBC Panorama, August 1997)*

The learning crisis is social as well as economic. Society has already shown signs of fracturing between rich and poor, between the included and the excluded. The pressures of the changing economic order are set to intensify these trends many-fold. Lifelong learning has to be a major part of the response to this. In this dimension lifelong learning within a social context is as important as learning in the context of the economy and jobs.

Workers need to recognise that heavy dependency on the employer or on the Government for skills development is the road to loss of personal competitiveness. The individual who does not take a keen personal interest in self-development - to the point, if all else fails, of self-financing - is at grave risk of falling into a twilight zone of uncertain jobs and low pay, or out of the labour market altogether. Before this development became obvious, there were already threats of social exclusion, particularly in inner cities and certain ethnic communities. These risks are now becoming general throughout society. Learning

policies are the best way, and perhaps the only way, to put a brake on the drop-out process.

In the short run, more learning helps people who are excluded to make sense of their plight and to engage their energies usefully. Even though the totality of available jobs is largely fixed, individuals may be helped to stay in contention for them. This can make the difference between hope and despair - with its associated social costs of family and community breakdown.

Elements of a strategy for lifelong learning

For two linked reasons, therefore - spanning both economic and social considerations - we can see the need for a new mass culture of lifelong learning. To make the transition, policy for lifelong learning must address four concerns:

- low volume of learning;
- narrow participation;
- the need to build up individual's personal and social commitment to planned and continuing learning;
- the need for institutions and Government to fall in step with the new culture.

Developing a mass culture of lifelong learning has to embrace *all* these elements. If it does not, the twin aims of improving economic competitiveness and averting social exclusion will be seriously at risk

Volume only

In recent years, the UK Government has pursued volume targets for learning, using competitive educational structures and output-related funding to drive up the volume achievement. This growth has been particularly rapid in higher education, and in the 16-19 age group; and it has been achieved without any serious attempt to define the task as culture change. It has been seen as a *throughput* problem.

This approach is deeply flawed. A focus on volume for volume's sake is a strange affair. There are bound to be concerns about the relevance of the outputs to economic performance, particularly if much of the output is bought directly by the State; and it surely matters profoundly who gets the skills and knowledge, those who already have them, or those who have none at all. The recent volume increases in learning experienced in the UK have had virtually no useful effect on the level and pattern of the participation statistics.

Single-minded pursuit of volume risks solving neither the competitiveness problem nor the threat of exclusion. It would fall down the crack in between.

We need, therefore to have a framework of integrated policies which at one and the same time push and pull the pattern of outputs into the shape which the economy needs *and* the mass of the population needs. Without that wider framework the volume approach to learning becomes as pointless in its way as the policies to maximise the size of the national harvest, or the number of pit props waiting to be felled by the Forestry Commission.

Participation only

Raising participation strictly means increasing the proportion of the population which does *any* learning, irrespective of what kind and how much that learning is. Policies which are all about stretching the net wider can be just as odd as chasing volume. They beg hard questions about the nature and relevance of the outputs and about the success which people have in applying their knowledge and skill. These questions thrust themselves forward in direct proportion to efforts to stretch the participation circle.

Apart from these concerns about the learning done, some commentators appear to believe it is possible to side-step the fundamental cultural challenge by finding ways of targeting public funding more effectively onto non-participants. Doubtless this model can produce more outreach. But the great danger here is to neglect the centre ground in pursuit of the margin. Even among the learners - those with jobs and with job security - there is a large job to do to create the values and practices of lifelong learning.

The task of widening participation without cultural change is to surround the present learning scene with armies of new learners bought in by public money, who are hard-pressed to say why they are there. There is a risk of that in the Government's proposed One Million Accounts for learning. The participation we should be talking about is participation in *lifelong learning*, not just adults attending one-off courses. The measure of success is widening the circle of such self-motivated lifelong learners.

Individual commitment

Much of the learning currently done by individuals is undertaken at the request or expectation of others - of parents or employer, for example. But the genuine individually committed learner resists all that, and insists on being party to the learning decisions and plans - muscling in on them, if need be - at least to the point that decisions are freely shared and entered into on a mutual basis. This is the difference between *active* and *passive* learning.

Encouraging individual commitment, and giving it expression through efficient market structures, would be a genuine step to culture change. Its effect would be to breath life and much needed sense of direction into the themes of *volume*

of and *participation in learning*. It has the potential to provide at one and the same time an answer to the two main problems which the UK faces:

- how to get the learning activity to rise to levels required by competitiveness, and
- how to help people to maintain their employability and to avoid becoming increasingly marginalised in the economy and in society.

Yet, although the mix is improved, a policy to concentrate on individual commitment would still lack something important. The strong likelihood is that the market forces element in individual commitment will produce only modest gains in participation. *The most marginalised people - the poor, the unemployed, the de-motivated - will generally be the last to adopt a positive approach to self-development. Lack of access to resources will undermine their progress.* At best the benefits will 'trickle down' to a minority.

Social commitment policies

If there is to be sufficient motivation for mass learning in the country, drawing on the whole body of citizens, those who are learners need to find ways to make their example rub off onto others. Learning, when best ordered, is like a benevolent contagion in the community. The sharing of learning improves the cohesion of society, making it easier for people to learn in the process. In the fullness of time it can save the Government large social expenditures, just as it can save individuals and employers considerable expenditures on peace of mind.

The UK therefore needs a *social commitment* on the part of society at large, and on the part of employers and learning individuals, to spread the cause of learning through the social networks. In effect, learning is the muscle that those of us in the lifeboat can provide for those who are 'dead in the water'.

The crucial element here is the supportive environment. We have argued above that a mechanical redistribution of public expenditure without the culture change would serve to patronise the excluded, and feed the cynicism they have about 'schemes' to salve the consciences of those who are safe and dry. But, in the context of a supportive environment - a celebration of learning open to all - the whole psychology is different. In *that* context, targeted redistribution of public expenditure can begin to make an impact.

Combining the elements

These arguments point one way only. To drive the volume of learning up far higher, we need individual commitment. To draw in the non-learners we need individual commitment, social commitment *and* redistribution of public expenditure on a significant scale. To pull the pattern of learning into a shape relevant

to the UK's economic needs we need employers and stakeholders to translate the needs of the economy into signals which committed learners can follow. In short, we need a strategy for lifelong learning, which will bring *all* the facets of lifelong learning into a crucible of mutually reinforcing policies which make for change.

A new financing infrastructure

We have, therefore, a UK skills crisis. It looks like a chronic wasting disease, but nobody excludes the possibility that a critical phase will be reached, and that Britain will suddenly free-fall. This might happen on the social dimension first. But in any case there is no other convincing way, *on the learning front,* to head off the crisis but through a major culture change to lifelong learning. This needs to be pursued through a whole raft of policies, of which one very prominent element is financing.

If we compare the present funding arrangements for learning against the need for a new lifelong learning culture, we see that at almost every point they conflict. This is not surprising, because they reflect, serve and confirm the present culture, with all its defects.

At the heart of present financing arrangements are the 'rules of the game': conventions.which purport to distribute the responsibilities for investing in learning between the stakeholders. These mean that most people rely heavily on the State or the employer for their learning; and there is a palpable lack of *mutuality* in investment (joint investments between different stakeholders).

Given present day economic conditions, it is out of the question that the State could buy its way into a new culture of lifelong learning, even if individuals could somehow come to a sense of personal ownership of the culture. Employers' contributions are no salvation either. The flexible labour market means that more and more workers are moving further and further into the shadows of peripheral and casual status, where employers' willingness to pay for learning is at best fitful and weak.

Yet, by the iron laws of economics, we can only get to a new culture of lifelong learning *if it can be financed.* So where is the money to come from to sustain the higher volumes? And where do we look for means to divert large sums of private money into those parts of society where lack of money is a major reason for non-participation in lifelong learning?

As the Kennedy Committee and the Dearing Inquiry have both seen, there has to be an upgrading and rebalancing of the whole financing system if the goal of lifelong learning is to be reached:

- individuals must be prepared to step into the vacuum left by the employers;
- the middle classes must loosen their grip on public funds to enable more of those funds to be diverted towards non-learners;
- the middle classes must more for themselves, which means greater savings and borrowings on their part;
- employers must be prepared to draw the stock of skills and knowledge into the occupations and places where they are is needed, and up to the volumes required;
- overall there must be huge additional resources, whatever the source.

The Kennedy Report recently surveyed the current scene of funding arrangements. That analysis is not repeated here. We simply say that there has been virtually no attempt by Government to stimulate savings for learning; the evidence from the Career Development Loans scheme is that there is a major market failure to borrowers to borrow, and of lenders to lend; the discretionary grant scheme is in terminal decline; local education authorities have been forced to strip community education to the bone; and there are funding crises in further and higher education, not to mention the schools.

This is where individual lifelong learning accounts come in. The ILLA system that we proposed provides every citizen with a learning account - cradle to grave. With support from the Government, this will draw savings and borrowings into the support of lifelong learning. Moreover the account will enable others - Government; employers; individuals; groups - to lay down funds, to support individuals' choice of learning on a social or mutual basis.

If everyone has access to this infrastructure on a continuing basis, and if that infrastructure is built to last, there is a hope that the present chaos will give place to order, and that there will be enough to fuel progress for culture change over an extended period.

But if the ILLA system is regarded as a mechanism only, that hope will fade. The system has to incorporate and nourish the defining characteristics of a lifelong learning *culture*, at the level of the hearts and minds of learners and in their interactions with other individuals and organisations. Properly designed and implemented, the ILLA system can do this job.

ILLAs: A necessary but not sufficient remedy

Readers may judge in the light of the following chapters whether or not our faith in the concept of ILLAs is justified. We complete this overview by summarising points from recent discussions on the theme of learning accounts.

- The goal of a mass culture of lifelong learning is logically attainable. It does not fall apart from inconsistency in its basic propositions.
- There is a broad consensus that the culture change to lifelong learning is right, indeed vital.
- There is a widely shared view that the current learning culture is part of the problem, and its abandonment must be part of the solution.
- Nearly everybody agrees that the current learning culture reflects very deep divisive and corrosive forces within society and the economy at large. A profound reversal of these tides and currents is needed. This can only be achieved through a comprehensive strategy, pursued over an extended period.

Against this back cloth it would be absurd to agree that the ILLA system is the magic pill, which dissolves all the problems away.

On the other hand our vision of a new culture of lifelong learning cannot rise high, even in the imagination, unless it stands firm on a resource base of magnitude far larger than what is available now. Here we come to the key point in all our recent discussions: if the solution is *not* to be an ILLA system, no one has been able to show how the resources can otherwise be raised. *There is no alternative in sight.*

So we reach the conclusion that ILLAs are indeed necessary, although they are not in themselves sufficient.

Only one expert - with a high reputation in the field - has come forward to say that it may not be worth attempting to establish an ILLAs system. This is on the grounds that Education Ministers and their civil servants - even in the context of a new Government - might not be able to escape the conceptual trap of their own culture of governance which sustains the present system. Given the persistence of the current culture, this argument has undeniable force. But there is, by demonstration, a large swelling of demand for culture change. Properly channelled, it can carry the day.

Chapter Two

The ILLA in outline

In this chapter we outline a new system for financing lifelong learning, which is centred on the individual. It will give every individual in the UK - young or old; rich or poor - the opportunity to hold an individual lifelong learning account (ILLA).

The ILLA is an account which:

- is held by individuals at banks or other financial institutions as a lifelong store of value;
- is dedicated to the purchase of learning, whether of services or materials;
- is owned only by individuals. Only they have the say on withdrawals;
- can be used to buy learning at any stage in a person's life;
- is separate from any other current or deposit accounts the individual may hold.

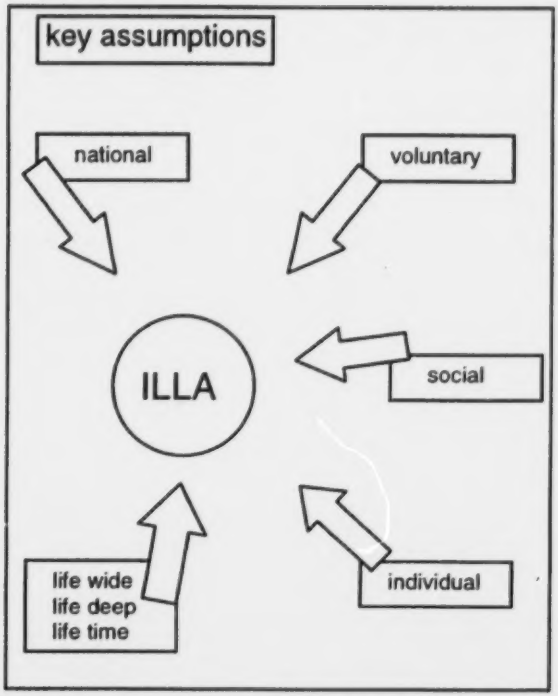
Owning an ILLA will be voluntary. Each account-holder will have a number fixed for a lifetime, like a national insurance number. Account holders will be encouraged to consider themselves permanent members of a national learning organisation - something like the proposed University for Industry, or (more aptly perhaps) a University for Lifelong Learning.

The ILLA has three basic financing functions:

- 'Save to learn' (STL)
- 'Borrow to learn' (BTL)
- 'Credit to learn' (CTL)

The ILLA holders will have access to all three functions. At any one time some may just need an STL facility to help save for learning; or a loan account under BTL in order to borrow for a course; or a special CTL account to hold vouchers or 'credits' which they have been given, or have collected, and which they can redeem for learning.

Figure 1: Key assumptions



Others may need more than one of these functions at the same time. As careers and domestic life become more complicated and less predictable, people will need to use the three functions in a variety of combinations at different stages in their lives.

It makes little or no practical difference whether the ILLA is regarded as three different but linked accounts, or one account with three different functions, so long as account holders find the arrangements clear and convenient *for them*. In presentational terms, however, we take the second approach.

'One account: three functions' captures the idea of bringing financial instruments together in support of learning. If, for example, a learner has a large outlay to make on learning, the learner might wish to call on savings from the STL part of the ILLA, on borrowings from BTL, and also on CTL to redeem some credit - learning loyalty points from the employer, perhaps - to complete the

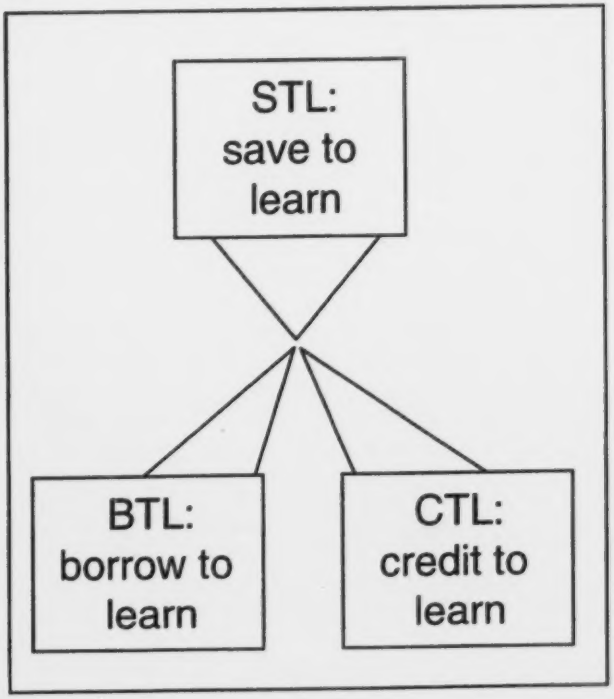
transaction. *Such mixed financing has to be easy if it is to support a mass culture* of lifetime learning.

Although the ILLA centres on the individual, that is not the end of the story. The ILLA is designed to enable individuals to help each other to learn, and to enable organisations like employers, public bodies, and even the Government itself, to make a contribution. They do this by transferring purchasing power into the ILLA for the individual to use. This is *multi- source financing.*

The three functions have to be designed to support both mixed and multi-source financing.

On this basis we may look more closely at each of the three functions.

Figure 2: The three functions of the ILLA



Save to Learn (STL)

STL is a state-subsidised function, within an ILLA held at a bank[3], in which that person can save specifically for learning. He or she may use this function to save, either regularly or occasionally as circumstances permit. The savings are real money, which earns interest. The interest, after deduction of administrative charges, is ploughed back to swell the balance in the account. At an appropriate time the account holder makes a withdrawal from the outstanding balance to purchase learning of his or her choice.

If people are to tie themselves into a dedicated learning account, the STL function must offer the individual more than an ordinary savings account. State subsidy provides this extra incentive. There is every reason for the State to do this, because it wishes people to learn more, and also to develop the habit of prudent saving. There are three possible ways for the State to put in the subsidy:

a) *Allowing deposits into STL from pre-tax income.* For most tax payers this amounts to a gift of about one pound of public money for every two pounds they save for learning from post tax income. Private pensions are currently assisted in this way.

b) *Allowing tax deduction from the price of a learning course.* In effect the standard tax payer draws money from the STL account and then claims the cost of the learning against income tax. This is done by the learning provider (a college or training company, for example) offering a 23% discount on the usual price. There is already a restricted version of this mechanism currently in operation. It is known as Vocational Training Relief (VTR). At present VTR applies almost entirely to training relating to National Vocational Qualifications (NVQs, or SVQs for Scotland). Any eligible purchaser can get this relief. It is not limited to people off-loading from special savings schemes.

c) *Allowing the individual to build up interest earnings (net of administrative charges) free of income tax*, providing the money is eventually spent on approved kinds of learning. If spent on other things, the tax relief would be lost, and back-tax on interest would have to be paid. Premature withdrawals from TESSAs lose tax relief in a similar way. We call this Interest Relief (ITR).

We propose to use a particular form of STL which combines (b) and (c). In the full ILLA model, VTR will be widened in scope to cover most forms of signifi-

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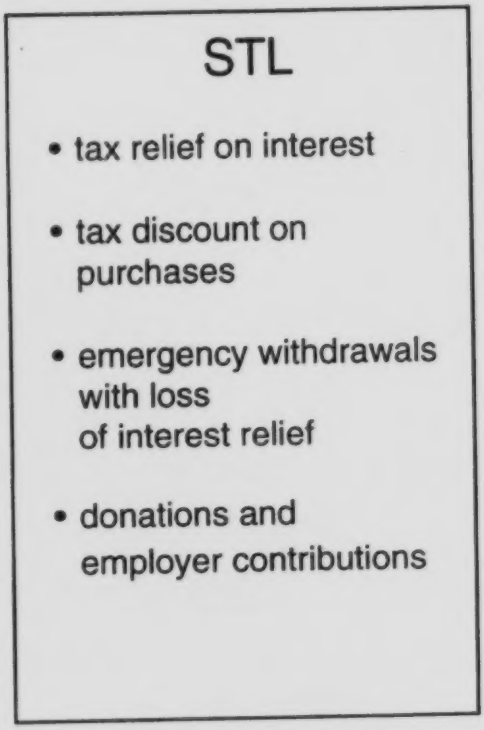
[3] For convenience we use this term throughout the paper to cover the whole range of participating institutions offering ILLA services.

cant learning investment. To refer to this wider form, we shall use the term Learning Tax Relief (LTR).

Figure 3: Save to learn


STL
• tax relief on interest
• tax discount on purchases
• emergency withdrawals with loss of interest relief
• donations and employer contributions

Item (a) drops from the reckoning for three reasons:

firstly, because the Inland Revenue would not allow both (a) and (b) at the same time. It must be one or the other;

secondly, because VTR is already running and could be widened to LTR without major tax upheavals;

thirdly, because the LTR approach has the crucial advantage that non-tax payers can benefit from the discount.

The reason for adding (c) to (b) is to give the saver a *strong* incentive to learn. VTR, or LTR the wider form, would cease to be separately available, once ILLAs are on stream. Otherwise the administration for tax relief has to have

two forms, one for ILLA holders, and one for everyone else. That would make for many complications. Both LTR and ITR would share the same rules for eligible learning expenditure (see below).

Borrow to Learn (BTL)

BTL is a state-subsidised function within an ILLA. Its purpose is for account holders to obtain and then pay back credit facilities or loans for learning. A sum is borrowed specifically for learning. Repayments of capital, and interest charges on outstanding debt, then follow. Payments are received by the bank, normally through a standing order from an individual's current account, until the borrowings are fully paid off.

Our proposed basic BTL function consists of:

> an initial learning purchase relieved by a LTR discount (using for LTR the same broad definition as for STL);
>
> followed by loan repayments, with ITR on the interest component. Loan repayments would cover the cost to the bank of providing the money for the loan, plus the cost of administering the loan. Tax relief would be made at source, by the bank charging a net interest rate, as happens currently for mortgage finance under the MIRAS system. The relief would be available on evidence of an LTR-qualifying purchase at the start.

Note that this model has the same broad shape as the STL function, only back to front. This symmetry is important for public understanding.

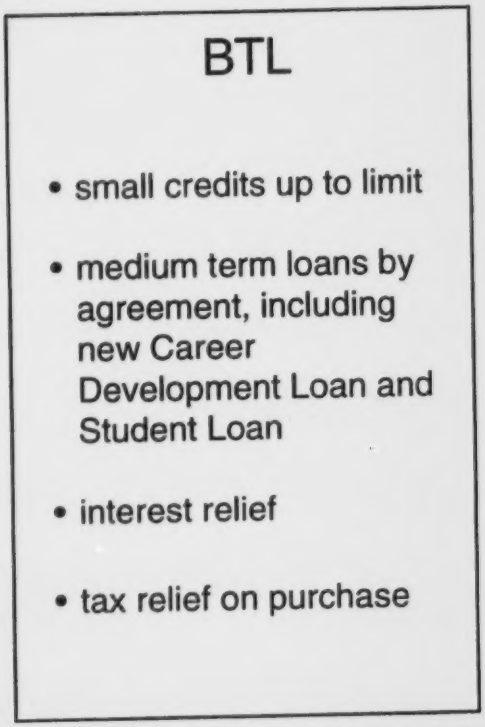
It is, of course, possible for individuals to use ordinary loan and credit facilities - including credit cards - for learning, outside any ILLA system. But both borrowers and lenders have traditionally been reluctant to make extensive use of these facilities, particularly arranged loans.

Without special support from the State, banks choose either not to arrange loans at all, or to lend only to chosen groups - law students, for instance. They could lend at very high rates of interest and on heavy loan conditions, but - in many cases - they choose not to do so, or politely deflect people from asking.

There is a good reason for this. Learning is not an asset which can act as collateral. In loans for car purchase, for example, the car can always be repossessed if the loan defaults. Knowledge cannot be repossessed in this way.

For the new ILLA system we need not just a new basic model, but a *choice of facilities*, carrying forward and integrating the range of BTL-like arrangements which are already well established. The full picture would be four fold:

Figure 4: Borrow to learn


BTL
• small credits up to limit
• medium term loans by agreement, including new Career Development Loan and Student Loan
• interest relief
• tax relief on purchase

a new overdraft credit scheme, with ITR and a link to LTR. This would be suitable for smaller borrowings on a credit basis, i.e.. without specific medium term loan agreements for named courses with particular providers. It would run alongside the STL scheme described above. At present there are few easy ways to borrow small amounts of money for learning. Career Development Loans (CDL), for instance, have a minimum size threshold of £300. This would fill that gap.

a basic medium term loan scheme, on terms broadly similar to the short term overdraft scheme. There would be access to LTR, and ITR would be applied by MIRAS -like procedures. This would replace most CDLs;

a new improved version of CDL Plus, with the features of (b). But it would provide a subsidised interest holiday during the period of learning (and a little longer) and the option for the State to take over temporarily the task of repayments, if the borrower becomes unable to start or keep up the pay-

ments. Moreover the issuing bank would be insured by the Government against risks of default, as is done now with CDLs;

a new form of Student Loan for initial further and higher education, issued by the banks, *without* the LTR and ITR of the basic model, but *with* the same repayment postponement and interest subsidies of existing Student Loans. Age, learning level, and full time status restrictions would go. Loans would cover maintenance, and any proportion of charged fees not met directly by the State.

Thus there will be a 'family' of different borrowing options within the BTL function. These are all aimed in one way or another at overcoming the current shortage of lending to provide for learning investment in anything like the way the housing market or the market for consumer durables is supported.

Credit[4] to Learn - CTL

CTL is a special function within an ILLA, which registers and stores conditional 'promises to pay' (credits) towards particular learning activities, and which is used as a basis for authorising redemption payments to learning and guidance providers.

The CTL function lists the separate credits which an individual receives, together with the redemption conditions which attach to them. For any one of these, on receiving evidence of a purchase which meets the conditions, the bank will call upon the issuing body to fulfil its promise to pay. This will take the form of a redemption payment to the learning provider. As redemptions are made the nominal value of the particular 'credits' is written down and ultimately wiped off the slate.

Such accounts are not unknown in other fields. In retailing, for example, accounts similar to these store 'loyalty points', which the customer can redeem when a qualifying purchase is made.

In the learning field, employers, Training and Enterprise Councils, and the State can all be found issuing learning credits under a wide variety of separate schemes and initiatives. Such credits contrast with the traditional approach, where the State or employer buys the learning from providers, and supplies it to the individuals. With credits the purchasing power is channelled through individuals. There is however no simple, common arrangement for handling the storing and redeeming of the various credits, and the administrative arrangements for each are expensive and ad hoc.

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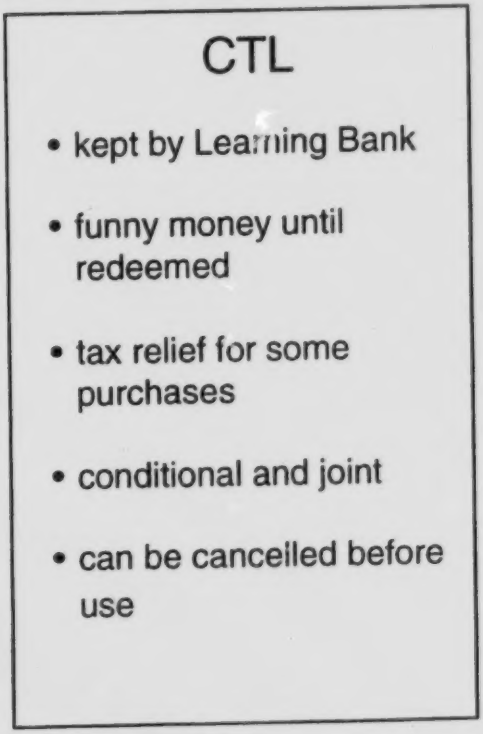
[4] Credits are sometimes called 'vouchers' in this context. These credits are to be distinguished from credits in the sense of 'units of academic achievement'.

The proposed CTL function solves these administrative problems once and for all by acting as *a single common system* for handling credits. Each credit has to be listed, with all its attached conditions. Then, when the individual wants to purchase some learning, the CTL function checks the proposed learning against the conditions belonging to particular credits in the list. Where there is a match, it calls upon the issuer to redeem the credit. This produces money which either pays for, or part-pays for, the proposed learning. As the redemption payment goes through, a deduction is made to cover the administrative cost of the CTL operation.

The ILLA holder could have a whole range of credits listed. There might, for example, be a credit from the employer, a nursery credit as a parent, some learning points as a bonus from the local college, and so on. But CTL cannot

Figure 5: Credit to learn


CTL
• kept by Learning Bank
• funny money until redeemed
• tax relief for some purchases
• conditional and joint
• can be cancelled before use

easily tell the ILLA holder how much *useable* value is stored up *overall*, across all the relevant credits which the holder has listed. This is because each credit will have its own, very particular conditions, and it may not be possible for all the conditions to be satisfied at any given time.

It is important that the ILLA system should support credits. In many situations it is a preferred method of financing learning when someone else is ready to pay towards the bill. Credit funding empowers the individual. Typically, it allows him or her a large degree of choice about if, what and when to learn, even though the learning is funded or part-funded by someone else. At the same time the issuer has strong control through the conditions of redemption - in effect setting limits on the individual's field of choice.

Employers and public bodies who wish to pay for learning and value empowerment for the learner could always think of handing over some real money on trust as a cash budget. But they will often prefer to issue credits instead, arguing that any temporary interest earnings on money not yet used for purchase should come to them, not the individual. They may face a degree of difficulty in forecasting the timing and amount of redemptions. But in most cases experience, and time conditions on the credits, can reduce this risk to manageable proportions.

The importance of the CTL function lies in three things:

less cost for the issuers - it offers a simple and cheap way to operate credit systems, even if they wish to impose quite particular conditions on them. It simplifies the whole administrative process. The business can be done by issuing mandates not unlike those used for direct debit - indeed it could be done over the phone by direct banking methods. This will make credit systems for learning available to small employers as well as large ones; local bodies like LEAs and TECs could use the system for their own highly specific and local purposes, avoiding a great deal of costly administration; for the State itself, it opens up the prospect of major redistributive options for use of the Government's post-16 education budgets;

advantages for the individual learners - it offers a way of keeping overall track of their credit position, via regular statements. More importantly, it provides a means to integrate use of credits with personal savings and borrowings, via STL and BTL.

advantages for the stakeholders - perhaps most important of all, the CTL function will support *joint* credits, where a single learning investment can be supported by a number of different parties (the stake holders) subscribing to a joint credit. Thus 'packaged' deals can be done: a bit from the TEC, a bit from the provider, a bit from the employer, a bit from the individual - or from other individuals.

CTL accounts, being in 'funny money', would be of little concern to banks, except where they are arranging redemptions as a financial service. They earn no interest, and so they create no benefit for the holding banks or for the individuals concerned.

This poses a choice. Either the ILLA banks will each have to carry out a credit administration service under a set national specification, for which they will have to be paid. Or there will have to be a *national agency* which administers the credits and redemptions, and then provides the ILLA banks with accounting data down the wire, enabling the individual to receive regular statements of STL, BTL and CTL functions alongside each other. We propose that the national agency be adopted, as the only practical option.

Finally, there is a question of the nature and extent of government support for the CTL function. CTL is different from BTL and STL, because it represents support given by others rather than resources raised by the individual. It has its own built-in incentive. Moreover the symmetry of tax relief for BTL and STL breaks down for CTL. There is no interest for ITR to attach to, and LTR would involve difficult double subsidy if the credit happened to come from the State.

Our proposal is that the new Credit Agency be allowed to recover a proportion of its administrative costs from the State. The proportion could be relatively small, matching the effect of interest relief in STL and BTL.

LTR should be available when the individual is making a *personal* redemption payment, or benefiting from a redemption by another individual, according to the value of the contributions. It would also be available on credits from employers, but only where the firm did not claim the credit as an allowable cost against corporation tax. i.e. as a training investment specific to the purposes of the firm. LTR would not be available if Government itself, or organisations acting for it[5],are the issuers.

Whether LTR applies or not, if the credit comes from an employer, it would not be treated as 'income in kind' for income tax purposes[6]. In a similar way credits redeemed by relatives, which might otherwise be taxable under the gifts tax or inheritance tax, would be tax-exempt up to a limit.

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[5] What happens now is that if the source of credit is the public purse the person is not eligible to claim VTR. The private surpluses of Training and Enterprise Councils do not count as public purse for this purpose, but their main training programmes do.

[6] Under present tax regulations it may have to be declared as an 'income in kind' and be taxed accordingly. If so the benefit of VTR to the individual is offset exactly by the tax liability on the employer contribution. The Inland Revenue is revising these arrangements at the moment.

Filling out the ILLA system

It would be possible to introduce the individual STL, BTL and CTL functions, along with LTR and ITR, separately and to keep them that way. But our underlying objective is to encourage individuals to take responsibility for their own learning on a lifetime basis, and to move towards a greater sharing of learning experience with others.

We propose additional facilities to achieve this. The system design should enable ILLA holders to:

- transfer savings to other ILLAs without loss of tax advantages.
- arrange for transfer of credits, subject to the issuer agreeing.
- stand as guarantors of medium term learning loans taken out by other ILLA holders.
- seek learning loans with special features which help the learner: namely the ability to roll up the loan charges during the period of learning (and a little after), and the ability to suspend repayments for temporary periods by arrangement.
- make a purchase, and then to make the payments according to a plan of staged payments, to go through automatically by direct debit.
- freeze a large transaction for a 'Cooling off' period before the payment plan comes into effect.
- receive regular reports, and reports on demand, showing, in one integrated presentation, the state of the cash in the ILLA, and also the credit position.
- get help from the ILLA bank to forecast forward commitments on the ILLA, in order to assess whether or not a proposed learning purchase can be afforded.

Fixing the boundary of tax relief

The tax relief requires a very clear definition of the kind of learning expenditures which can be supported, if abuse is to be avoided. At present VTR is very tightly defined. It is limited almost entirely to national/Scottish vocational qualifications (NVQs/SVQs). LTR, as proposed, widens the relief very considerably, and its definitional boundary would serve to establish eligible expenditure for ITR as well as for LTR.

This widening is not as easy as it might look. There is the problem of definition, and also the problem of cost.

On definition, it is vital to the ILLA system that it should be proof against suspicion of skulduggery. The Inland Revenue will rightly insist that people should not be able to invent bogus learning opportunities as a disguise for private pleasurable consumption. A holiday in the Bahamas can easily become a ' learn while you relax' experience.

We propose the following definitions:

for the purposes of ILLAs, learning is a process organised by a supplier, which has the aim that the purchasing ILLA holder, who undertakes the process (the learner), should achieve a gain in skills and/or knowledge (learning gain) *which is intended to be independently assessed and recorded as an achievement.*

for the purpose of ILLAs, a learning purchase can only be made by the learner (or, in the case of a minor, for the learner).

for the purpose of ILLAs, a learning purchase comprises:

- either fees for delivery of a process of learning as defined;
- or charges made by the supplier of the learning for the acquisition or use of learning materials, software, and hardware, which are, in the view of the supplier, necessary to the particular learning process;
- or charges made by the supplier of the learning for support services which, in the view of the supplier, are necessary if the learner is to be able to participate in the particular process of learning.

On these definitions, note that:

guidance counts as a learning experience - in this case there is gain in self-knowledge, as well as knowledge of options and choices in the learning and labour markets, etc.;

if people take a course, it will only qualify for tax relief if the supplier can show that the learning aims at certificated learning gain *for the person concerned.* Certification does not have to be to a nationally recognised qualification, although it is generally desirable that it should be;

whether the learning is a taught course, or self-taught distance learning, the assessment and certification of achievement has to be a integral part of process. Without that neither fees, nor materials, nor support expenditures will qualify;

it is acceptable for the purchase to be only of assessment and certification, or of materials or support services, provided it is linked to a learning pro-

cess which can be identified, and which shows evidence of intention to achieve learning gain;

it will be evidence in favour of the learning gain and assessment test that assessment fees are included in the purchase price, and are not returnable in the event of the individual not undertaking the assessment;

all purchases have to be through a learning or guidance provider, even if it is for a service supplied by another organisation - such as a crèche;

Internet transactions are perfectly acceptable, provided that the other conditions for eligibility are met.

These definitions cannot be absolutely watertight against abuse. They should at least go quite some way to avoid people claiming relief for inadequate reasons - say on a computer which they would have bought for general purposes anyway, or on purchase of books for general reading, as if they were intended for serious study.

There is, however, no disguising the fact that the informal learning which arises from leisure activity cannot be included in a system of tax relief incentives, without opening the flood gates to a torrent of doubtful claims.

The definitions have to be underpinned by assurances from the learning provider, backed up by occasional audit. In particular, the provider will have to log each transaction against a code which establishes the link with the learning course or package to which the purchase is connected. The making of a payment claim under an ILLA will imply an assurance that the learning purchase has a necessary link to an identified learning process which passes the learning gain and assessment test. In essence, the provider will only be able to remain part of the ILLA system if offering sound audit trails to back these assurances.

Economic aspects of tax relief

On the cost issue, the wider definition for tax relief means a large, open-ended commitment from the Government in the form of tax revenue foregone. Matching savings would have to be found elsewhere.

One way to find savings is to reduce mortgage relief still further. Now that the owner-occupation objectives of successive governments have been achieved, a shift towards a *skills-owning democracy* has much to recommend it. Against the cost of LTR we would set the benefit of a vital shift towards a culture of lifetime learning.

Finding the money is not the only concern. People may also worry about tax proposals of this kind on two main grounds, prices and dead-weight:

They might encourage providers of learning and learning-related materials or services to push up prices. Research, however, has produced no evidence of this happening for VTR. To make doubly sure, the provider kitemarking arrangements would require providers to publish gross prices, and to provide evidence that they are charging them on corporate clients and other customers not using the relief.

They would involve giving relief to learners who might well have undertaken learning without it. This possibility is known as 'dead-weight'. In principle it is possible to avoid it by seeking to apply the relief only to those whose learning depends absolutely upon it. But this is impractical in administrative terms. Either dead-weight has to be accepted, or the attempt to stimulate more learning at the margin is abandoned.

In this case it must be accepted. To secure a culture shift it is necessary for the government to signal the importance of learning clearly over an extended period; and it is the total effect of that in the long run, when there has been a step change in behaviour, which justifies the outlay. This is what happened on home ownership. On this analysis dead-weight is little more than a recognition that it takes time for the investment to pay off.

New infrastructure for lifelong learning

We may regard the financing model, with its three key functions, the supporting tax relief arrangements, and other supporting facilities as a *financial infrastructure*. Just as we have an integrated national system of motorways, which can be used by many different people for a multitude of purposes, so we can have a financial infrastructure which will enable learning 'journeys' to many different destinations. As with the motorways, the State ensures that the system is there for people to use, and lays down the principles for its operation.

The rest is up to the others: the learners, the guidance workers, the learning providers, the banks, local authorities, and many different players. It is not a scheme, or a programme. It is much bigger than that. An ILLA with three interlocking financing functions, available through life on a continuing and consistent basis, will be an invaluable tool to support lifelong learning for the whole population.

Chapter Three

The workings of the ILLA system

Overview of ILLA activities

In this chapter we move on from the financing structure of ILLAs, as set out in Chapter Two, to consider the *workings and interactions* which make up the ILLA system in practice. We concentrate on questions of 'who does what to whom', and not - at this point - on the technology of the implementation.

Figure 6 overleaf provides an overview of the working architecture of the ILLA system, linking related activities across the piece

We can use this map to see how the required functions are to be delivered. We need to look:

first, at the *main stake holders* in the system

second, at *the activities which link the stakeholders.*

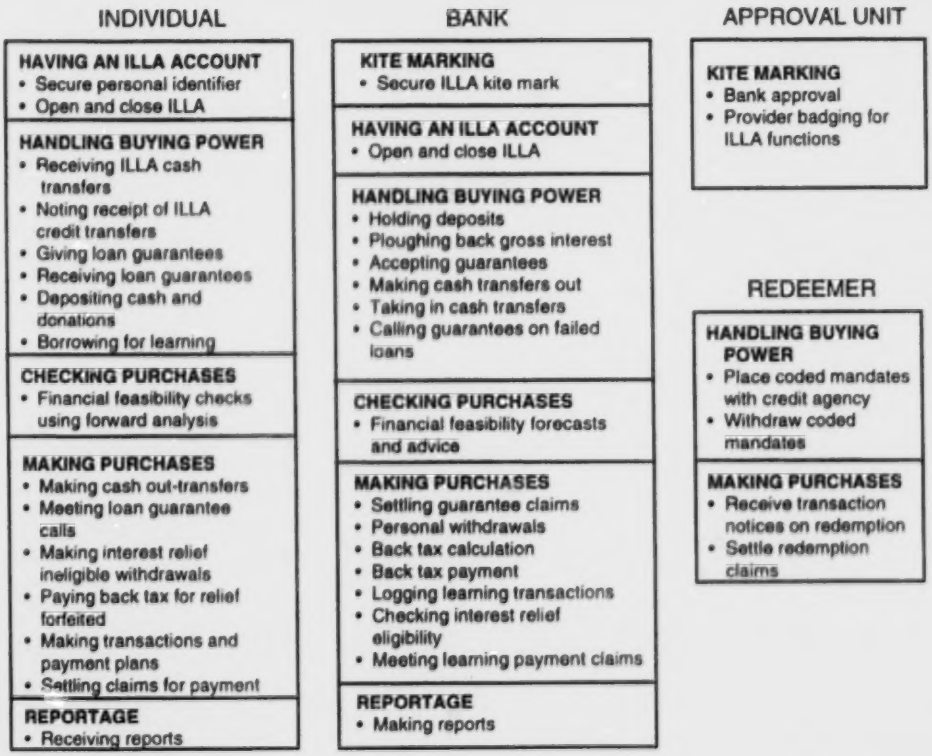
The stakeholders

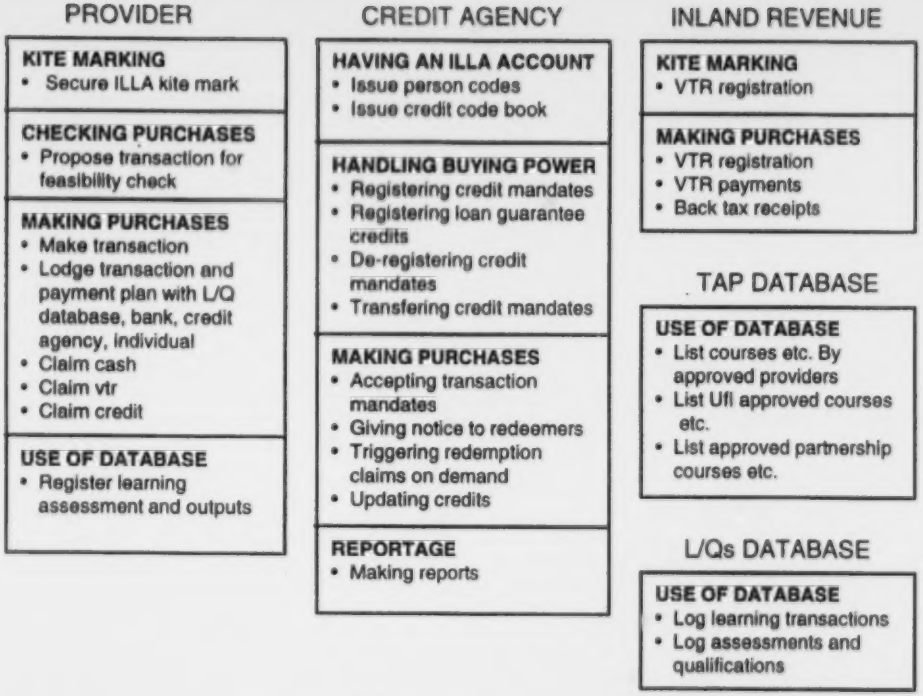
The stakeholders are the people and organisations which will need to work in partnership to operate the ILLA system. They are as follows:

The *individual* is the person voluntarily holding the ILLA, and making all decisions and disposals relating to the account. The only exceptions to this are: joint accounts, held in the name of a group of individuals, either with other family members, or other interested people acting together; where a guardian acts for an ILLA holder who is a minor; or where a person acts with power of attorney or as an executor of an estate.

The *bank* is the kitemarked organisation administering the ILLA, and, in particular, managing the cash elements of the account. To avoid conflict of interest, ILLA banks should not act as providers under the ILLA system, but they can have independent offshoot organisations to do this. Apart from that, banks can be any of a wide range of reputable organisations, provided they can satisfy the kite marker that they are able to offer the basic ILLA service, according to all the agreed operational protocols. They *might* include a Learning Bank, if the Government sets one up; and they could include the University for Industry, if it is not to be a provider in its own right. They could certainly include clearing banks, building societies, insurance companies, credit unions (subject to

Figure 6: Basic ILLA model systems map




PROVIDER
KITE MARKING
• Secure ILLA kite mark
CHECKING PURCHASES
• Propose transaction for feasibility check
MAKING PURCHASES
• Make transaction
• Lodge transaction and payment plan with L/Q database, bank, credit agency, individual
• Claim cash
• Claim vtr
• Claim credit
USE OF DATABASE
• Register learning assessment and outputs
CREDIT AGENCY
HAVING AN ILLA ACCOUNT
• Issue person codes
• Issue credit code book
HANDLING BUYING POWER
• Registering credit mandates
• Registering loan guarantee credits
• De-registering credit mandates
• Transfering credit mandates
MAKING PURCHASES
• Accepting transaction mandates
• Giving notice to redeemers
• Triggering redemption claims on demand
• Updating credits
REPORTAGE
• Making reports
INLAND REVENUE
KITE MARKING
• VTR registration
MAKING PURCHASES
• VTR registration
• VTR payments
• Back tax receipts
TAP DATABASE
USE OF DATABASE
• List courses etc. By approved providers
• List Ufi approved courses etc.
• List approved partnership courses etc.
L/Qs DATABASE
USE OF DATABASE
• Log learning transactions
• Log assessments and qualifications

support from the Registrar), and trade unions. Banks would make ILLAs available on competitive terms, subject to the basic requirements. They would be at hand on every High Street.

The *Credit Agency* is a specialist organisation linked electronically to all the ILLA banks. For each ILLA holder the Agency collects and registers credit mandates. These are authorisations, rather like direct debit forms, which are promises to pay for the individual's learning, subject to conditions laid down by the promisor. In due course, the Agency will receive claims for the promises to be redeemed under the conditions laid down. These will come from learning providers who are selling learning to the ILLA holder. The Agency will check each claim. If the conditions are met, it will release the credit, and trigger a demand for payment from the redeemer - see below. More generally, the Agency feeds regular and ad hoc reports on an individual's credits down the wire, either to the bank, where they are set up alongside the cash part of the ILLA, or to the client at interview with a provider.

The *provider* is a supplier of learning, of guidance, of learning materials or equipment, or of learning-related services like transport or child care, which has been kitemarked as a supplier in the ILLA system. Providers include colleges and universities, open learning organisations, sellers of learning software and hardware, even organisations trading in learning as hyper-links on the World Wide Web.

The *redeemer* is the person or organisation which issues credits and undertakes to redeem them, under conditions laid down. The credits themselves can be standalone credits; or they can be joint credits, which are triggered for payment, if other specified credits are redeemed.

The *Inland Revenue* is the Government Department responsible, under the general direction of the Treasury, for the administration and operational policy on tax relief, both VTR (LTR) and interest relief.

The *Approval Unit* is a special body jointly set up by the banks and government to award kite marks for ILLA banks and providers, with regard (in either case) to the ability of organisations to operate the ILLA system at or above its minimum specification.

The *TAP Database* is a national UK-wide data base supported by the Government and other organisations, which serves the Learning Line, i.e. the Government-sponsored learning and guidance helpline, now at the planning stage. It contains complete records of learning opportunities available at local and national levels. Its scope would be enhanced to support the ILLA system.

The *Learning and Qualifications Database* is a UK-wide data base supported by fees from learners charged through the ILLA system, which logs the learning transactions which ILLA holders make, and subsequently the results of assessments,

including qualifications. The records may only be inspected by the individuals whose learning it is, or by others with the individuals' permission.

The *Government*, immanent but not visible in Figure 6, takes overall responsibility to see that the ILLA system works. But it does so as first amongst equals. It cannot be stressed too highly that the ILLA system is not a Government scheme. It is a fully-fledged public/private partnership, where the commercial interests of the banks, the economic interests of employers, and national interest of the Government in creating a culture of lifelong learning, are brought together.

How the system will work

We now review the main activities linking the stakeholders, using Figure 1 as our guide. We start with 'setting up', turning later to matters connected with transactions, and to the shifting of value.

Kitemarking the banks and providers

The *ILLA banks* will need kitemarking by the Approval Unit. The banks must demonstrate that they can meet the requirements of the system, for accounting, reporting, making payments, etc. Government would require *all* ILLA banks to offer *all* the main functions. Among other things, this would involve satisfying Inland Revenue that banks can manage interest relief appropriately.

The *providers* also need kitemarking by the Approval Unit on the following:

ability[7] to operate the VTR/LTR discount;

ability to catalogue transactions as eligible for interest relief;

ability to claim redemptions from the Credit Agency;

ability to claim accurately against ILLAs, according to agreed payment plans;

ability to support financial advice services in conjunction with ILLA banks.

This list suggests a kitemarking of providers graded by the ILLA functionality they offer. An ILLA holder needs *as a minimum* to know clearly what functionality a provider offers.

We propose therefore that providers should apply to a Government established Approval Unit for certificates validating the ILLA functions they offer. This approach would allow 'low-tech' providers - in small rural or island communi-

[7] Advice will be taken from the Inland Revenue on these.

ties, perhaps - to make simple claims on ILLAs, on the basis that they have not called for any credit redemptions or LTR/VTR reimbursements. If, however, the full service is needed, the ILLA holder would approach another provider with the appropriate badging.

The imposition of quality assurance registration for providers *on top* of these arrangements is quite another matter. It would be a major step, given that there will be tests on interest relief eligibility (see below) which seek to rule out bogus learning courses and materials. We propose not to press for this now, but the option would be left open for the longer run

Opening ILLA Accounts

Every one can apply for a cradle-to-grave ILLA, to cater for true lifelong learning, subject to bank acceptance. The application would be made in person, or by a legal guardian. It would always be voluntary, although individuals may come under strong persuasion to have one - from employers, for example. Banks would be free to reject applications, but the Government would make arrangements for a bank to provide a 'last resort' service for people who have been rejected.

Each ILLA holder is assigned a unique identification number, which - like the National Insurance code - remains the same throughout life. Any person can open more than one ILLA, and each ILLA must be identified by a bank/bank location code and the unique ILLA personal identifier. The Credit Agency would issue personal identifiers to ILLA holders through their banks, and keep a master list.

There are generally no age restrictions on *facilities within* ILLAs, including the proposed interest relief on savings and borrowing. But ILLA holders under 18 will not be able to enter into a medium-term loan agreement through *their* ILLAs, although their legal guardians may do so for them. ILLA holders under 18 in full time education are also excluded from VTR under present rules. This restriction will carry over to LTR.

Settling the ILLA client's transaction with the provider

The ILLA client approaches any kite marked provider looking to make a purchase. After discussion, a particular learning, guidance, or learning- related purchase will be proposed, together with an associated plan of dated payments, (*The Payment Plan*). If the client wishes, this proposal can be checked for financial feasibility against the ILLA account, including the credit register at the Credit Agency (see below). If both parties are happy about the financial feasibility of the purchase, the transaction can be made.

For *small transactions*, under (say) £100, the transaction will go straight through - subject to the payment plan. At the appropriate time(s) the provider will claim:

redemption elements from the Credit Agency;

LTR from Inland Revenue; and

(net) cash elements from the ILLA bank.

In the case of credits, the transaction would not go ahead except where there are enough credits already in hand to cover the entire call for redemptions, with credits 'reserved' ahead of time.

On the cash front, the bank will check if LTR eligibility has been established by the provider. If LTR is not applicable, it will conclude that ITR is also not applicable, and proceed to calculate back tax and prepare for payment(s) to the Inland Revenue. The calculation will be based on the total outlay net of credit redemptions from other sources. If, after allowing for overdraft facilities, there is not enough cash in the bank to meet the first call for payment, net of back tax, the transaction will abort, or the bank will suggest a loan agreement under BTL.

For *larger transactions*, there will be a 'cooling off' period, which allows time for individuals to change their minds and seek further advice. At the end of cooling-off, and all being well, the transaction will be confirmed, and the provider will begin to make claims for payment, according to the payment plan. Otherwise the transaction will be dropped.

Details of the proposed transaction and payment plan have to be 'posted' at the beginning of 'cooling off':

with the individual, for information,

with the bank, as provisional notice of intended payment claims,

and the Credit Agency, as notice of intended redemptions.

In the 'cooling off' period, the bank will use the posted details to see if LTR deductions are proposed. If the proposed expenditure is not attracting LTR (which, in the full ILLA model, has the same eligibility definition as ITR) the bank will calculate and prepare to deduct the back tax due. It will then be able to check that the account can meet at very least the first proposed payment in the payment plan. If not, it will assess the need for short term overdraft or loan support; or, if all else fails, it will 'bounce' the transaction on the grounds of inadequate resource.

To make cash shortage unlikely, the ILLA holder can seek a standing short-term credit facility, up to a limit (say £500 in a typical case), on consideration of personal credit status. If the bank, at its discretion, agrees a medium-term loan

under BTL, it will make capital advances into the cash account, to support the demand for payment. The resulting capital repayments and interest will be charged to the ILLA, and will be expected to be covered by new deposits in due course.

The Credit Agency, for its part, will check the credit position on the 'posted' transaction. According to the redeemer's instructions, it may need to ' post' the details on to the redeemer. The redeemer, for example, might wish to judge, after the transaction is proposed, whether the learning is suitable in some judgmental aspect - e.g. is not-job-related.

For transactions over £100, we propose to use the payments plan as an important instrument of policy. In such cases there would be a minimum of two payments in the payments plan: one on evidence that the course or module had been started, and the other on evidence that it had been completed. Either payment should conform to a percentage rule. The start payment must be (say) less than or equal to 1/3; the completion[8] payment must be (say) greater than or equal to one tenth. The payment plan must include all fees and charges, which cannot be varied once the transaction is finally made. If the course or module is abandoned by the provider, or the client is removed from the course or module, the payment plan must be suspended from that date.

These arrangements are needed, not only to protect the client, but to provide the basis for accountability for publicly- funded credits.

For each transaction which goes through, the ILLA bank, and the other parties - the provider and the Credit Agency - will keep transaction logs. As the transactions go through, the provider will be free to claim any associated LTR reimbursement from the Inland Revenue.

Accounting for credits

Figure 7 illustrates the credit register held in the name of the ILLA holder at the Credit Agency.

This is where redeemers lodge their credits, and where they go to cancel unredeemed credits which they wish to withdraw. This might happen, for example, if an employee dies, or leaves the particular employer.

When the provider notifies the Agency of a relevant transaction, the Agency will check that it satisfies credit conditions. If so a payment claim can be issued against the redeemer. The register contains all the data needed to check conditions and trigger the claims. As redemption payments are made, the outstanding

[8] Completion is defined as the date when the course or module has been assessed, and a result obtained.

Credit line no.	Issuer	Redeemer	Redeemer bank a/c	Units	£ value net of admin	Condition code	Redeemed so far units	Outstanding £ value	Time limit
1 2 3 etc									

SUMMARY CREDIT REPORT

Credit	Issuer	Outstanding value	Time limit
1 2 3 etc			

47

Figure 7: Credit lines at credit agency - person X

value of credits is adjusted downward. The Agency will also write off credits which have gone out of time, according to conditions set by redeemers.

Registering the conditions which attach to credits, and subsequently checking proposed transactions against them, are key aspects of the work of the Credit Agency. Some credits are virtually without conditions - 'spend on any course or materials you like'. Others may be very conditional indeed, with tests on the learner (e.g. sex; age band, etc.); on the learner's economic status (e.g. employed; unemployed); on the nature of the learning purchase (e.g. fees only; child care only; travel); and contingent requirements, such as jointness with other credits (e.g. matching contributions).

For the Credit Agency to record these conditions, there must be a 'book of codes' for redeemers and the Agency to use. Only credit mandates with recognised codes can be accepted. The credit system will, however, founder if the coding is too restrictive.

The Credit Agency must rely entirely on the provider to supply facts and assurances that conditions are met. Before a learning transaction is agreed the provider must, therefore, check the availability of credits. For this the provider will use the Credit Agency's code book to describe any proposed transaction in order to establish by matching the existence of a relevant credit.

This process would be IT-based, and could be carried out iteratively. For example, the provider might - at first - offer just course type, age, and employment status. The Credit Agency might respond with several partial matches, requiring confirmation that the employer currently is (say) H J Farrow and Son of Peterborough, and that the course is - on the provider's assessment - not job-related. The provider will only achieve full credit redemption kite marking if maintaining high standards of verification on credit redemption claims.

The ILLA system would cover credits of all kinds. It would, however, have a special link with existing loyalty schemes offered by retailers and others. The University for Industry should pioneer a scheme in which retailers' loyalty points can be collected for each ILLA holder, in a special loyalty credit line at the Credit Agency. This would be spent without restriction on any expenditure eligible for tax relief.

The application of tax relief

There are two tax reliefs in the Prototype system, interest tax relief - ITR, and learning tax relief - LTR. We need to see how these are applied.

Interest tax relief (ITR)

A definition of eligible expenditure is needed for interest relief on learning. Following the precedent of TESSAs, if withdrawals are made from ILLAs for non-learning purposes or for ineligible learning, a back-tax payment should be made to Inland Revenue for the element of gross interest which would have been taxed but for the relief.

Personal withdrawals for non-learning purposes, made direct from the ILLA, give rise to a back tax calculation without complications. Such withdrawals might arise, for example, in the event of a domestic emergency.

The purchase of learning, in the form of a course, or materials, or even learning related services, raises more difficulty. For example, courses such as 'Painting for Pleasure' or 'Chess Club' commonly appear in college prospectuses. Our proposal is that these are learning courses only if they aim for and embody *learning gain*, i.e. some increase in knowledge or skill. This means meeting the *assessed learning gain test* as set out in chapter 2.

The test is easier to apply to course fees than to open learning purchases, or to (say) purchase of computer equipment' for learning'. What it means in the latter cases is that materials, hardware, etc. need to be purchased *as part of a package offering some assessment and record of achievement*, even if this is not of the standing of a nationally recognised award.

If an ILLA is spent on learning which fails the eligibility test, the account should be adjusted for back-tax, in the same way as for non-learning expenditure. Accurate information will be needed from the claiming provider to enable the bank to determine eligibility.

In the case of the full ILLA model we are taking the eligibility for ITR to be the same as for LTR. If therefore the provider has established eligibility for LTR, and applied the discount, the bank will know that no back tax correction has to be made for ITR. A suitable coding will tell the bank if this is so.

If, however, no LTR discount applies, the bank can deduce that the proposed expenditure is not eligible for ITR, and make the back tax adjustment.

Learning tax relief (LTR)

The main question for policy makers is, 'Should LTR be available only to ILLA holders, or should there be two modes of administration: one for ILLA holders, and one for the others?' Our proposal is that LTR should replace the narrow-based VTR, and that LTR should *only* be available through the ILLA system.

The opportunity exists to streamline the administration of LTR within the ILLA design. This will redress what has been a running sore with VTR. As part of the solution, it could be a condition of being a registered LTR provider, able to offer the LTR discount, is that the provider should have in use a matrix of courses and learning packages, cross-classified by tax relief status under LTR. The matrix will establish transactions, and proportions of transactions, which are tax-relievable. The Open University already has one of these for VTR, covering all its course offerings. The LTR matrix, by virtue of the breadth of definition, should be far simpler.

Our proposals for helping providers to establish whether LTR (and hence ITR) applies are:

- that, by an assumption of trust, all claims for payment on expenditure described as eligible, from public educational institutions (e.g. FE and HE colleges) and from licensed guidance services, will be taken automatically to pass the learning gain assessment test, subject, of course, to periodic public audit;

- all other learning purchases, whether of courses or materials, from other providers will need to carry an approval code, establishing that the purchases meet the eligibility test. Courses or materials can be approved by two means: by the University for Industry, and by regional (or sub-UK) lifelong learning partnerships for learning supplied in their areas. Only courses carrying such approval will be eligible; and it will be for the claiming provider to check the description of the purchase against the lists of approvals made by these bodies, and to cite the relevant code;

- as luck has it, the means for the provider to check for the relevant code is at hand in the form of a national learning opportunities ('TAP') database, now being constructed for the Learning Line. The bank matches the provider's codes and descriptions against the database. In the case of partnership approaches the residential post code of the learner is used to check course approval against the appropriate partnership.

Loans and guarantees in the ILLA system

The ILLA system will allow learning loans[9] to have a wide variety of terms and conditions determined by competitive pressures between the banks. At the same time it will set down set down *minimum* criteria for the form of those loans. The Government will also want to influence the terms of learning-related loans for selected subsidised clients.

Loan guarantees are an important additional facility in the task of reducing the risk inherent in lending activity. Guarantees by ILLA holders against learning loans taken out by other ILLA holders would be treated rather like credits. Mandates for these, duly authorised by the guarantor and his or her ILLA bank, would be lodged with the Credit Agency through the bank issuing the loan.

The ILLA holder giving the guarantee is the redeemer. On receipt of a claim from the lending bank that a loan has defaulted, the Credit Agency will trigger a claim against the guarantor ILLA. relating to the outstanding value of the loan, plus default charges.

The ILLA will already have reserved the value of the guarantee against potential default, and should therefore be able to pay. Guarantees would be made with a mandate which assures the lending bank that a reservation to the stated amount has been made in the guarantor's ILLA.

Administrative charges

The ILLA system will adopt three principles on administration charges:

charges on all credits are paid as a percentage premium on the value of redemptions. The premium would provide insurance against the risk of claims for redemption payments being wrongly processed on receipt of data from the provider, or against fraud on the part of provider or client;

charges on handling the cash elements of the consolidated cash account and for reportage are levied on the individual competitively, according to the practice of particular banks;

charges on handling overdrafts and loans are built into interest charges.

Deductions

The full ILLA model would, we propose, carry a limited number of publicly-declared *mandatory deductions* from redemptions and cash payments in the ILLA system. They represent a way of charging for general benefits and services which cannot readily be charged for by direct means. The deductions would, in

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[9] Excluding overdrafts in this context

total, be a very small percentage of cash flow, and they would go towards financing a number of initiatives underpinning lifelong learning, including the Campaign for Learning, and the National Advisory Council for Careers and Educational Guidance (the Guidance Council). Such devices can also be used to cover the cost of quality assurance and other regulatory procedures.

Guidance and advice for the ILLA holder

For the *wider provision of guidance for learning and for work*, we are proposing that the rules of LTR should include guidance counselling, which is, after all, a learning experience. This can be done by using the Guidance Council's kite marking of guidance providers, which is now beginning its planning stage. Any invoice from a recognised provider would be eligible for LTR, and also for interest relief, provided it is for a total of less than £500.

We also propose that the Government should set up a *UK Learning and Qualifications Database*. This would carry present and future learning achievements of ILLA holders, and as much of past achievements as individuals care to insert. This would act as a summary record of learning achievement, which could serve as a source for CVs and other achievement portfolios. ILLA holders would have full control on access to data kept in this way.

The data base would be an invaluable tool for guidance; employers - with the permission of the ILLA holder - would be able to draw on its contents to verify learning achievement.

We can make a link between the database and the idea of a payment plan for larger payments in the ILLA system. If, as we propose, the completion payment is blocked until the provider has recorded the result of the learning on the Database, there will be a powerful incentive on the provider to ensure that the Database contains up-to-date outcomes information. Over time a substantial log of learning achievement will build up for the individual.

The individual's record in the data base could be used by the database agency to issue reminders to individuals (at their own request) of their qualifications' approaching obsolescence. This is a key requirement of an efficient learning system, sadly lacking in the UK - as elsewhere. It would also be used to record credit accumulation and transfer (CATS) points for subsequent aggregation. These are key features for lifelong learning policy.

On *financial aspects* of a proposed learning expenditure, ILLA learners will often need to check whether or not they can afford a proposed learning course or module, when it is offered with its associated payment plan. That option should always be available. For this purpose the ILLA bank should take the net cost of the proposed learning (after allowing for any LTR discount and credits), and offer a forward looking *'spread sheet'* service, which forecasts the consolidated

cash position on the ILLA account, if the proposed payment plan is implemented.

The forecast would be made by taking current stored value, and any forward commitments for cash inflow and outflow. These can be derived from standing orders to make deposits or to transfer ILLA value; the existing log of transactions already made and their payment plans; and from other data generated internally, such as the loan account.

If, after the analysis, the learner decides not to enter into the transaction, without first considering how a cash shortfall would be filled, the learner can refer to the provider's proposed transaction details in order to explore the possibility of a bank loan. When the bank offers such a loan, the forward forecast would reflect the availability of capital advances for the proposed course, and any loan charges. Against that background the learner can decide.

Value transfer

If they have a positive balance in their ILLA cash holdings, ILLA holders can move value to another ILLA - belonging to themselves but held elsewhere, or to other people. They would use special transfer mandates to do this. To preserve the ability of the recipient to pay back-tax in the future, the transfer has to be partitioned into back-tax and other elements of value. The transfer itself does not trigger a back-tax payment.

The ILLA bank will not, of course, sanction 'transfer-out' of value, either to other ILLAs or elsewhere, unless the money is there to be transferred, and all overdrafts and loan obligations have been paid off.

Transfer of credits

Just as cash value can be transferred within the ILLA system, so can credits - but with greater difficulty, because the redeemer has to agree the transfer. It is tempting to say that there should be no credit transfer in the ILLA system. But some employers might welcome the opportunity to build work force loyalty by saying to employees, in effect, 'Sorry that you have been too overworked to use your credit for study. Why not pass it on to a member of your family, or a work mate?' This is important from the cultural perspective. It could also open up the general possibility of a secondary market in credits.

We propose that the opportunity to transfer should be on offer through a special condition-code in the 'book of codes' which redeemers use. Where permitted, the ILLA holder should be able to assign the credit by using a transfer mandate. On the death of an ILLA holder, however, it is probably necessary for to have a default assumption which will zero out all credits, unless the redeemer chooses otherwise.

Reporting to the ILLA holder

The ILLA holder will need regular paper reports on the overall status of the ILLA, and should also be able to receive summary or detailed reports on request.

Summary credit reports (see Figure 8) are drawn in from the Credit Agency. These are set down beside a *consolidated cash account* (see Figure 9) either in complete or - preferably - in summary form.

Figure 8: Reporting to the ILLA holder

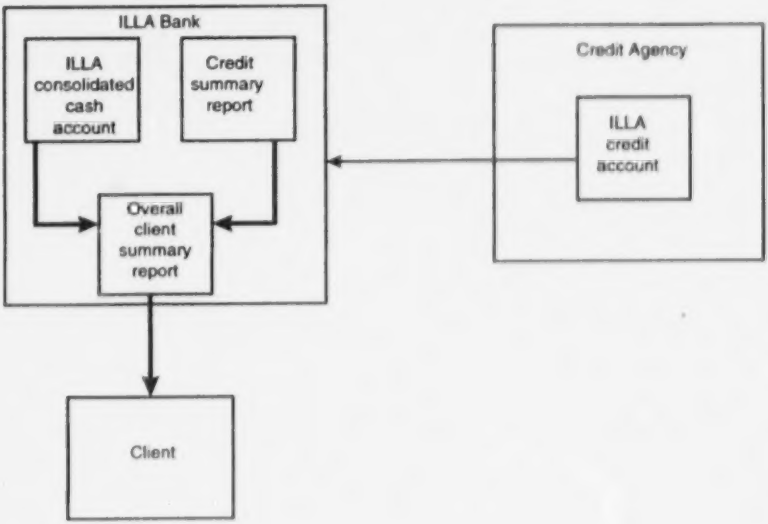

Figure 9: ILLA consolidated cash account

Items	Cumulative position Date X	Changes	Cumulative position Date Y
Savings			
+ deposits and donations	3000	200	3200
+ transfers in from other ILLAs	500	0	500
+ gross interest retained	100	10	110
- non-eligible withdrawals	-200	0	-200
- back tax on non-eligible withdrawals	-10	0	-10
- transfers out to other ILLAs	0	0	0
- account charges	-50	-10	-60
- learning withdrawals	-2000	-4000	-6000
Borrowing			
+ capital advances on loan	0	2000	2000
- capital repayments	0	400	400
- loan interest after MIRAS deduction	0	400	400
- overdraft interest after MIRAS deduction	0	175	175
Overall cash position			
+ cash surplus	1340	0	1340
- deficit (overdraft)	0	-825	-825
Reservations			
- provision for guarantees	0	-100	-100
- provision for first invoice in cooling off	0	0	0
Overall cash position after reservations			
+ surplus	1340	100	1440
- deficit (overdraft	0	0	0

Notes on Figure 9

In the savings part of the consolidated cash account, there are:

- receipts into the ILLA's STL function from outside, including regular and irregular savings, and regular or occasional donations. There are also transfers from other ILLAs. These are free from any tax adjustments, whereas donations are subject to whatever tax regime applies to gifts and transfers, or payment of employment income 'in kind'. Such tax is levied outside the ILLA;
- gross interest paid by the bank on surplus funds held in the consolidated cash account. This must always be ploughed back into the account;
- any ineligible outlays and their associated surrender of back-tax; transfers to other ILLAs; administrative charges; and eligible outlays paid to the provider.

In the borrowings part of the consolidated account, there are:

- the bank records capital advances on any learning loans, and loan charges (of interest and capital). Interest on overdraft is also shown.

In the total part, there are:

- the overall surplus or deficit. The deficit will be within the overdraft limit, and reflects the use of the overdraft to balance the cash positions.
- any reservations made. These reflect loan guarantees offered to other ILLA holders, and also transactions held in the 'cooling-off' period.

Chapter Four

The learning card

Introduction

The ILLA system *looks* complicated when put down as a list of requirements, and some people might think it too complex to work. Discussions with leading-edge technologists, and consideration of the high degree of complexity in existing, well-understood banking systems, lead us to the conclusion that these worries are baseless. The iterative checking procedures, the virtually simultaneous claiming of money from different sources, the use of data bases, etc, can all be addressed readily by modern software and hardware.

Technologists rightly stress the need for studies in full technological development studies to fix the best way to meet the ILLA remit. There are signs that these studies, and those on costing which go along with them, might soon be undertaken. They will take time. In the meanwhile it is important to hold onto the key fact - that the ILLA system *can* be made to work smoothly for the learner, and - for what it is and for what it does - to support a culture shift towards lifelong learning.

In this chapter, therefore, we aim to show that there is *at least one, very plausible, way to operate the system* - namely through a smart card held by the learner. We shall call this the Learning Card.

The learning card

The Learning Card acts a secure key which the learner can use to access the functions of the ILLA, control access to databases, and keep useful personal and learning data. It also has ancillary uses - collecting loyalty points; acting as an identity card; serving as an electronic purse; or as an access permit to learning services on campus, over the Internet, or down the fibre optic cable. We believe that in the end a Learning Card with these capabilities is likely to prove a dominant element in technical solutions to deliver the ILLA system.

The smart card we are talking about is the same size as an ordinary bank card with a magnetic stripe, but much more intelligent. It is a miniature computer, which becomes alive when inserted into a small reader machine, normally linked to a PC. The readers are not unlike the card machines used by retailers on the counter. They can be obtained for well under £100.

The smart card can store and process information, just like any computer. Some data is wired in before the card is issued, and buried so deep into the card that it cannot be altered, or even read except by the smart card's own processor. Other data can be read from the card, provided that proper access codes are used. Moreover the card can be given data through the reader, which it can process; and the results of that can be fed back through the reader to the PC.

Smart cards come in different sizes. The kind needed for ILLAs is a large capacity card, capable of a range of different applications. These multifunctional cards exist, and are in use in a variety of contexts. They are a proven technology.

Public familiarity with smart cards in general, and with high capacity cards in particular, is less in the UK than in other countries. But quite soon all the major banks will be converting from magnetic stripe cards to smart cards, and, if the boom in loyalty cards teaches anything, it tells us that the general public will take to smart cards without hesitation.

Our suggestion is that every ILLA holder be issued with a smart card bearing the individual's personal identifier, and the reference number of the ILLA account. There will be an associated PIN number. By arrangement between the banks these smart cards will have a common technical specification. The cards will bear the distinctive logos and livery of the issuing banks, but from a technical viewpoint they will all be the same, and will do the same job.

Wired into the card, beyond anyone's reach, is coded information which will enable a person reading the card to be sure that the card is not counterfeit. Furthermore, the card will carry unalterable basic data about the individual - age, sex, address, etc., which, in combination with the PIN number, will establish that the person presenting the card is the person to whom the card belongs, and is who he or she is. This means that the card can be used without any measurable risk to authorise payments, and to open up access to data for personal use which is otherwise kept private and secure.

Armed with the Learning Card, the ILLA holder can approach a provider to make a learning purchase. That provider will have at least one two-slot smart card reader attached to a PC, and perhaps several. The provider also has special software to support dealings made with Learning Cards, and a modem or cable link enabling the provider to communicate electronically both with the ILLA bank, and with the Credit Agency. Lastly the provider, reflecting its status as approved for ILLA purposes, will have a special provider smart card which establishes that the provider is what it claims to be, and is approved as fit to make payment claims through the ILLA system.

When the two smart cards are placed side by side in the reader, the software allows the learner, acting jointly with the provider, to access the Credit Agency

by modem or electronic link to find out if a proposed learning purchase is supported by credits or not; and it allows the learner to verify at the ILLA bank the funds which are available to make a purchase, and to supply the learner the means to assure the provider that the transaction is financially sound. This can be done without opening the *details* of the ILLA to the provider. It can also take account of the eligibility or otherwise of the proposed learning for tax relief, and any back tax which might become payable.

We may assume that the banks and the Credit Agency have automated procedures. Guided by the software, which prompts appropriate questions in sequence, in a matter of seconds the learner and the provider will be able to establish that a proposed learning purchase is/is not 'on the cards', and that the cost, less credit redemptions and any LTR, will be a given sum, payable according to a timed payment plan. If both parties are happy with the outcome, the learner can use the PIN number to give permission to make the transaction.

If the transaction is small, payment claims are automatically triggered, at the bank, and also at the Credit Agency, which in turn triggers calls for redemption payments. At the same time, in appropriate cases a claim is made for Inland Revenue to pay the provider for any VTR discount which has been taken up. The smart card also allows access to the Learning and Qualifications data base, where details of the learning purchase are entered for future reference.

If the transaction is large, the 'cooling off' provisions will apply, and the payment claims are 'posted', and reserved against the cash and credit parts of the ILLA until the waiting period has elapsed. If the decision is to abort the transaction, the learner and the provider must set up their smart cards again to 'unmake' the transaction; otherwise the payments go through.

The beauty of this system lies in the economy of administration which it offers, cutting out large amounts of paper work and eliminating delays and mistakes; it also enable stronger learner protections, and more accommodating payment plans for large transactions.

When the details of the proposed transaction have been checked out, and its financial feasibility established, all the financial triggers can be pressed at the same time. When ready, the learner can make a virtually simultaneous financial settlement, involving, calls on all three key financing functions, STL, BTL, and CTL, as necessary.

There are other things the Learning Card can do to help the purchaser of Learning.

- The Card, at the conclusion of the dialogue with the provider, makes a personal electronic claim to the Inland Revenue for LTR, if the learning purchase is eligible or partly eligible.

- According to our proposals, the final payment in a payment plan will not go through automatically. It requires to be authorised especially by reuse of the Learning Card. The software then ensures that the provider does not get the last payment unless the organisation has undertaken assessment of learning outcomes, and recorded them on the Learning and Qualifications database against the learner's personal number and the relevant transaction.

- In this way the Card can be used to arrange the recording of Credit Accumulation and Transfer (CATS) points, and support a Record of Achievement for the learner. These - with permission of the individual - can be accessed by guidance professionals or employers, as well as being a record for the individual, of course. They may be located in the Card itself, or - more likely - in the Learning and Qualifications Database.

- At the interview with the provider, the learner can call electronically for a financial feasibility analysis from the bank. This could come back in seconds down the wire or through the modem link.

- The learner may have to take the proposals away, and weigh up the possibility of a loan. In any case, there may be a need to seek further guidance on aspects of the decision. In these circumstances the Card itself can be 'written on' by the provider to record the details of any proposed transaction, which the learner wishes to assess. These could then be taken to a guidance worker for further discussion. They could also go back to the bank as a basis for the bank considering a loan. If the bank approves, it will write onto the card its official approval of the loan, to be triggered when the transaction finally goes ahead. The Learning Card thus serves to carry detail about courses, etc. - often technical, with reference numbers which are easy to get wrong - between the provider and other parties.

- The Card can also carry a summary CV, and also a career and learning action plan, written to the Card by an accredited guidance worker. Much time in guidance interviews is taken up with the collection - and often retaking - of personal data and client histories. The Card, with its capacity to store personal data, can cut through all that, and potentially offers a huge improvement in the effective use of time in interview. Later on, with the permission of the individual, the learning provider is able to read the Card for learning specifications set down by the guidance worker as part of the guidance action plan. These guidance functions of the Card are very important.

Other functions of the learning card

The basic learning functions of the Card address all the key features of the ILLA system. The general picture is of the banks, Credit Agency, redeemers, etc. working the ILLA system through computer software meeting common minimum specifications. The main business of carrying through transactions, keeping accounts, compiling reports, and so on is done off-Card, 'back at the ranch'. The Card is mainly a secure personal key in the hands of the learner, establishing identity and making authorisations. But it also serves as a carrier of key information.

With these uses, the Learning Card can be a powerful symbol of lifelong learning for the holder. But there is a snag. It is not likely that the Card will be used frequently enough for many learners to have day to day familiarity with it. This is where *locally determined ancillary functions* become important.

The Learning Card could, for instance, be used as a student campus or college card, for functions like petty electronic purse, borrowing of books, access to secure labs, halls of residence, etc. It should also be possible to use it as a general identifier, and for handling retail loyalty points with a learning exchange value. There is no technical impediment to such uses.

Designing a learning card application

Five years ago a smart card of this kind would have been an impracticable dream. Today it is quite feasible, with technology available on the shelf. General application of ILLAs would rapidly build up into millions, and this would bring the smart card costs down to just a pound or two at most.

Good designers are essential. Security is a key requirement, and is a serious challenge. Already there are fraud concerns about student loans and CDLs; and if there are to be major developments in voluntary learning credits, there will be many concerns about valid claims and audit trails. The banks have come (reluctantly) to the smart card as the only way to achieve the necessary protection for their mainstream business. If it is right for them, it is right for the ILLA system as well. The personal data on the Learning Card gives a great deal of assurance to the redeemers of credits, to banks making loans, or tax authorities giving VTR relief, that the call for payment is genuine.

A lesser issue, but one of more direct concern to the user, is the treatment of lost cards. Here the smart card technology has an immediate pay off. Lost cards would be unusable by other people, and the designers will ensure that lost cards can be reconstituted by back-up data preserved by ILLA-holding banks and other stakeholders.

At a broader level, the design must recognise the importance of public acceptability for the Learning Card. There will be some very real concerns about the

61

uses to which a smart card system might be put. UK politicians, have been cautious in applying the smart card technology to the public sector. They have been worried by the Orwellian nightmare of the Big Brother state, i.e. about the inclinations of their own kind to use data to interfere with people's lives.

To scotch these fears, we should accept that everyone using the smart card is *entitled* to firm arrangements against Government interference, and against abuse, fraud, and other evils, and design accordingly. The smart card is very good at this. It can put the control of access to data, as well as access to ILLA money, exclusively in the hands of the individual.

Happily the general public tend to be more bullish on matters of this kind than the politicians. Already there are major smart card applications in the UK, with no signs of customer resistance or worries about data privacy. These positive attitudes will be heavily reinforced by the imminent shift to smart cards by all the major clearing banks, which can no longer accept the lack of security of the current magnetic strip technology. The loyalty points boom also shows how rapidly public taste can develop. It is difficult, therefore, to argue that the smart card itself would be *too* smart for public comfort.

But what of those in society who have not had long experience of bank accounts, who for reasons of deprivation and social exclusion have had more experience of the money lender than of the listening bank? Would the smart card be above *their* heads, and above *their* pockets? This is the acid test of any technology for implementing ILLAs. We should not be over-anxious here:

- first, there are good prospects of ILLAs, with their smart cards, being offered by local community organisations, football and sporting clubs, and - with some legislative changes - by credit unions. These are organisations with roots well established in the local community;

- second, there are considerable opportunities for Local Education authorities and local colleges to use the smart cards to give access to locally issued 'return to learn' credits. Credits have the power to overcome resistance from people who have little personal resource to put into the ILLA via savings, or little credit rating for loans;

- third, the ILLA itself is completely separate from the ordinary bank current account. The bank will not be allowed to raid the ILLA if the current account goes into the red;

- fourth, the ILLA system itself should encourage the development of more and better guidance. This will not only help the would-be learners with decisions about their learning, it will also serve to counter any residual anxieties about the smart card itself;

- fifth, there is nothing to prevent a guidance worker acting as a supporter of the learner in using the smart card, provided that the individual is prepared to give written permission;

- finally, it is important not to patronise the poor by acting as if a Hi-Tech card is somehow above them. The underlying problem for these groups is not technophobia, but low motivation to learn, borne out of the low expectations and fatalism of those who have been struggling with poverty. For given motivation levels, there is no reason to think that the smart card would make additional difficulties for people on the margin.

More generally, designers would have to heed the lessons of previous smart card experiments in the learning field. These have related mainly to training, and a number of evaluations of them were undertaken by the former Employment Department. In general it is true that the experiments have had mixed fortunes. But studies reveal that the problems have not been due to failures of technology. They can be largely put down to the dangers of developing small-scale, single function applications with single smart card suppliers; of underestimating the task of agreeing and holding to the data specifications with all the interests concerned; and of integrating the card well into the wider cultural environment. There is no reason why good systems designers should not address these points in a nation-wide ILLA system.

Level of service

In the last analysis it is not smart card's fancy functionality, as such, which will make for customer acceptability of ILLA technology. What is needed is technology offering a 'one-stop' service for the learner, cutting out the costly and demoralising 'to and fro' negotiation and enquiry which is the lot of so many people seeking to return to learn. The smart card appears to score very well on that test.

In use, it would put the client into a structured interview not unlike that which people experience when booking a holiday at the travel agency. It ought to be possible to make this procedure user-friendly to the full range of clients.

On the arguments presented here, the Learning Card is a serious contender for the implementation of the ILLA system. But if the technologists can improve on the smart card approach for delivering the required standard of service, perhaps by mixing it with Internet solutions, so much the better. Detailed developmental studies are needed before a fully informed view of cost and customer convenience is available.

At the time of writing the DfEE is moving close to a joint development project which will cover the ground. This is a most encouraging step.

Chapter Five

Implications of the ILLA system

In this chapter we show how the ILLA model, expressed through the Learning Card, can provide the main planks for a lifelong learning strategy for the UK: underpinning individual commitment; underpinning social commitment; developing employer commitment; and improving the decisions which people take by keeping track of learning, and by creating a stronger guidance industry.

We also consider three areas of potential concern:

- the lack of control on market forces;
- the worry that ILLAs might unpick the 'rules of the game' between stakeholders with an interest in the learning investment;
- the concern that ILLAs may be too 'executive' for the non-learning parts of society.

Underpinning individual commitment

People are individually committed to lifelong learning when, *as individuals*, they feel in control of their own learning; do not feel that privacy is at risk; maintain a high level of motivation towards learning; and continue to learn on a planned and regular basis.

We have already seen how the system of ILLAs will put the individual in charge of the account. This is the central principle, except for minors. People will be free to keep their ILLA account (or accounts - individuals can have more than one ILLA if they want to) with a bank of their choice. This will often be the one where they normally hold their personal funds, though not necessarily so. Being able to shop around for the best deal is a way of enhancing ownership.

Moreover, the ILLA system ensures that there can be no use of funds under any of the ILLA functions unless the individual gives personal authorisation. Anybody with a moral or religious objection to any of the functions, for instance, need not use that particular function. Taking all together, there should be a strong sense of personal ownership and control.

At the same time, the system will be *voluntary*. People can decide whether or not to have an account; and at any time they can pull out altogether, or can put their accounts on ice by suspending the regular statements at the cost of a

phone call. Similarly, they can resume if and when they wish. But no-one with an account would be obliged by Government to save or to borrow. The only exception which could - theoretically - arise would be with CTL, if Government were to decide to fund compulsory education up to age 16 through the credit mechanism. This is unlikely at any early date.

There will, of course, be disciplines on the way account holders use their ILLAs. Those who borrow will still have to satisfy the lender as to their credit worthiness, and to pay back their borrowings; those who enter into joint credit arrangements with their employers will have to meet their redemption obligations, and so on. But these obligations would be freely entered into.

Some people might be concerned that the ILLA system, particularly with a smart card implementation, will encourage 'snooping' by the State, or the employer, or the learning provider, and that this will weaken the sense of ownership by removing privacy. But the system will be specifically designed to ensure that nobody can enter the databases holding personal information, or obtain information on the state of the ILLA, or information about the account holder's learning achievements, without the express permission of the account holder.

The ILLA system also promotes the development of a *high degree of motivation.*

- Research has shown that up to a quarter of learners have financial problems with their learning. The ILLA system will provide a measure of insurance against financial difficulties and contingencies, which must be good for morale. Having at hand a simple, comprehensive financial system will also be a considerable boost to motivation.

- There is some evidence that if people do their own purchasing, and if they commit their own resources to the learning, they will be more strongly motivated towards success and completion of the learning than if it was all laid on by the State or employer. The proposed system should promote further increases in own-purchase, and in own-financing or shared financing.

The ILLA system will also foster *continuity in learning* in a number of ways:

- greatly improved provision of quality assured guidance services will feed motivation and ongoing commitment;

- the regular statements of account, which reflects a system set up for continuous use, will promote regular reflection on the individual's learning programme;

- if the saving and borrowing functions (much neglected in the present system of finance) are brought into greater prominence, the fact that the

finance is spread over time will keep the learning theme in the front of people's minds;

- the key functions of the ILLA will ensure that at the various stages of life people will have the means to provide continuity and progression in learning;

- finally, the ILLA system can be used to promote progression from one learning episode to another. Already training practice shows that completion bonuses, and bonuses for success in achieving qualifications, can be handled very readily in the form of credits for the start of the subsequent learning episode. There could be a substantial shift of public resources into the task of maintaining good 'bridging' over time, by the issue of vouchers for the next purchase, even if the learners have to pay rather more during their courses.

Underpinning social commitment

Social commitment to lifelong learning refers to the ways in which a society helps it members, individually or in groups, *to support others* in their desire to be lifelong learners. The ILLA system will also foster this kind of commitment.

- We have already seen how people can help to support each other's learning by using the system to make regular or lump-sum contributions into the STL function of other people's ILLA accounts, tax free up to a generous top limit. This can be done while donors are still alive, or, after death, by their legal executors. Research into Career Development Loan rejections showed that a high proportion of the applicants rejected quickly found alternative sources of funds from within the wider family circle. As the economic picture between generations is redrawn by changes in the labour market, growing numbers of older people, who have been - or were - continuously employed during their working lives, are now investing in their grandchildren's' education.

> ***Scenario 1:*** *Frances and Pete are retired teachers. On the birth of each grandchild they have opened an ILLA, in proxy for the child, and made regular contributions. The funds have been used for music lessons and specialist guidance for Gerry (who is dyslexic); athletics coaching for Lorraine; and towards maintenance at University for Paul.*

- Individuals can offer each other similar support by transferring savings from the STL part of their own ILLA into somebody else's. Such transfers preserve tax relief on interest, and the opportunity for tax relief on learning purchase.

> ***Scenario 2:*** *Cassie is 36. She has done a basic 'women returners' course, in preparation for returning to work after a five year break looking after her daughter. Now she wants to take a more advanced course in computer skills, to prepare for seeking full time work. Her partner Roy has been in well supported work for the same employer for ten years. He has transferred some of his savings from the STL part of his ILLA into Cassie's ILLA, to help pay for the course.*

- In addition, there will be a system for making loan guarantees. These will allow people to use their ILLA funds to cover risk of defaults by others on loans for learning.

> ***Scenario 3:*** *Robbie manages a small garage. He's never been wealthy, but he's never been out of work. He wants to encourage Grant - an ex-prisoner who helps out at the garage - to improve on his basic qualifications, as a way to 'give him a leg up'. He has helped Grant to open an ILLA, and is standing guarantor for a loan so that Grant can buy essential tools for a specialist course.*

- Family or group cards are already a feature of domestic banking and billing. Under the new system there will be no essential impediment to members of a family or household sharing a Family Learning Card, for example, with agreed limits to its use by the various family members.

> ***Scenario 4:*** *Lloyd and Gwen have worked in the packaging industry for most of their adult lives, and save on a regular basis into a 'family ILLA'. They are using it to pay for their own training and qualifications for early retirement (as part time swimming and gymnastics trainers). Their adult sons can also borrow from the account for learning expenses, up to a fixed limit. Owen has used it towards training - to move from social work to becoming manager of an outdoor-pursuit centre; Gareth has used it towards nursery fees for his daughter.*

- Similarly there will be club-based ILLAs. These could fund learning in much the same way as 'Christmas Clubs' or credit unions do: providing a way for members of communities to manage the money they have to common advantage. Such clubs will be able to provide assurance to banks in support of small loans issued through the communal ILLA with its own Learning Cards for members.

- It is possible for individuals to use their ILLAs to subscribe to educational charities, or to social activities connected with learning. An individual can subscribe by debit from the STL function of his or her ILLA. And joint credit mechanisms allow a particularly powerful form of community investment - enabling individuals to redeem credits from their own ILLAs and match what an organisation has already granted, thereby doubling the support available. This provides plenty of scope for learning providers to

be creative in organising these activities as part of initiatives such as the 'Learning Cities'.

> ***Scenario 5:*** *George is 59, a self made businessman, and a governor of his local FE college. He has the habits of a lifelong learner, though he does not have many formal qualifications. He was strongly influenced by the personal interest and support of a teacher when he was young and heading into trouble, fast. He has looked for a direct way of supporting three students a year from the deprived area where he grew up, without becoming involved in the time-consuming procedures of selection and administration. Through the College, he provides funding from his personal ILLA (backed up by regular personal contact) to match credits offered by the local TEC.*

- National Training Organisations, Unions or professional bodies could use the communal possibilities of the ILLA system for joint and mutual purposes, or to make a charitable contribution to community learning.

Commitment to learn in the workplace

The ILLA system will also lead to a strengthening of commitment amongst employers and unions to develop lifelong learning in the context of the workplace.

Research evidence on Ford EDAP and on Investors in People strongly suggests that the new credit arrangements in the ILLA will encourage employers into a more positive way of handling learning issues. For example:

- the credit mechanism will boost implementation of the Investors in People standard, with its emphasis on empowering the individual, and on systematic planning of continuing learning;
- as the banks will undertake the administration of ILLAs, employers will save heavy administrative costs, despite the payment of charges. This will appeal particularly (but not only) to smaller employers, whose support for continuing learning is currently very weak. Credit mandates can be issued 'direct' or on-line, as well as on paper;

> ***Scenario 6:*** *A large UK building society has a 'psychological contract' with each of its employees and agents. This says, in effect, that the company cannot promise them a job for life, but that it will help to maintain their employability by contributing to the costs of continuing professional development - beyond job specific training. This involves the company in administration for a vast number of courses all over the UK. The ILLA system will enable it to continue to support employability, leave responsibility with the individual employees and agents,* and *to reduce administration.*

- the idea of joint credits will make it possible for local TECs to part-support learning in companies where participation in learning is low or narrowly job-specific. A national employee development scheme, for example, is a simple and natural use of the ILLA infrastructure. Something along the lines of the *Return to Learn Scheme*, undertaken by Kent TEC in a 50/50 partnership with small firms in its area, could be replicated on an appropriate scale for particular industrial sectors, or for the whole of the UK;

- joint credits would also enable employers to negotiate more mutual-advantage deals with workers individually or in groups. These are still quite rare - even when time, as well as money, is taken into account. Their rarity is a significant market failure in its own right. It reflects the outmoded idea that it is always 'somebody else's' responsibility to pay for learning. For the learner, this is often goes with accepting that 'somebody else' dictates what should be learnt.

Other features of the system will also help to grow commitment to learning in the workplace. Employers will be able to encourage use of the stronger guidance arrangements; and, with the consent of particular workers, they will be able to benefit from the new learning and qualification data base which will sit alongside the ILLAs (see below). The use of the system to issue skill update reminders will have important implications for employers.

The ILLA system will also greatly help the work of trade unions in their role as 'learning organisations'. Unions can, for example:

- press for donations into STL accounts, rather than credits, to give completely unconditional use of the funds for learning;

- encourage systematic credit arrangements for learning associated with redundancy and retirement, and they may also wish to ensure that unspent credits are convertible into STL funds when people leave the particular employment;

- look for a particular opportunity for using the credit mechanism to support employee development schemes, leaving job-related training to be handled separately;

- press the employer to support learning in the families of employees, or in the local communities which serve the employer. This uses the credit mechanism, which will have all the flexibility of card-based 'loyalty schemes';

- press the employer to offer loan guarantees - i.e. conditional credit support for learning loans taken out by individuals. This could, for example, give insurance against loss of earnings.

These are all things which most unions could support. Taken together, they show how the unions can use the ILLA system to make a key contribution to building the new culture of learning, both through their traditional bargaining activity, and through services supplied to members.

Keeping track of learning

Managing lifelong learning and career development means developing the habits and practice of *good maintenance*. For this, it is important that learners periodically log their learning activities and achievements, including full qualifications, and successful assessments *towards* such qualifications. For adults this can also cover short vocational courses, induction events, health and safety courses, etc.

The proposals for a central data base for learning and qualifications are targeted precisely on this need. They would generalise to all learners the advantages of the Profile database for lifelong learning currently being developed for the Government by the Universities and Colleges Admissions Service (UCAS).

Many young people are now taught at school the habits and disciplines of recording achievement, and of reflecting on its implications. In theory at least, their records of achievement and reflective skills travel with them through post-compulsory education and training and into employment. On the other hand, adults who left school before the National Record of Achievement was introduced, need special training in these skills of personal development.

For all individuals, both young and older, a log of the kind proposed can be a key instrument in personal planning for learning, building the habit of reflection on personal achievements and progression. Reflective study and practice is a sign of lifelong learning, at the individual and social level.

For employers, authenticated data from personal learning logs/records of achievement represents significant administrative savings in recruitment and personnel management. It also reduces the risk of the employer making poor job engagements, promotions, and task allocations. A recurring theme in studies of employers is their lack of easily accessible knowledge about the skills and qualifications present in the work force. Other studies show very high proportions of people taking and holding second-best jobs. Demand and supply fit poorly together. The improvement in matching skills to tasks, using learning logs, will greatly benefit both sides of the labour market.

Developments of this kind open up the further prospect of helping people to keep their qualifications up-to-date. The central data base can notify learners

when their qualifications are losing currency. The ILLA holder can then receive, on request, a list detailing any updating modules which might be needed. In particular, the Learning Card can be used in the context of a guidance interview to call up and display an analysis of the need for updating modules, which the learner might wish to consider.

Aggregated information of this same kind, processed anonymously at the central data base, can help national training organisations (NTOs) to measure the state of training and learning needs in their particular industries.

Better guidance for learning and work

The emergence of a lifelong learning culture in the UK depends on the support of an effective and mature guidance industry. We are far from this at present: guidance workers continue to be trapped by a public image of them as purveyors of *emergency* advice to *people who can't cope*. A vigorous modern industry, with a fresh image, is needed - one which caters for every need, and which gains the confidence of all who interest in learning and work - including learning providers; employers; workers; government; and representative bodies such as unions, professional bodies and National Training Organisations.

The ethos and practice of 'preventive guidance'- now being strongly advocated by the Guidance Council - needs to be developed throughout the population, to underpin the ethos and practice of lifelong learning. Guidance provision itself needs to develop from being a predominantly public sector service, very largely focused on the needs of young people, towards a range of services with a lifelong perspective, provided by the public and private sectors working together. People need a guidance industry which - like the health service - can keep track of lifelong records on individuals learning and career development, and prompt them with information and reminders about services available to them, according to their particular situation.

The key things needed to make this transformation are quality assurance for the whole industry, and money - lots of it.

Regarding the first point, the Guidance Council is currently working with Government to develop a UK quality assurance framework for guidance activity. This covers services offered by guidance specialists, and by professionals in other fields. The new framework has the potential to a new, more attractive image for guidance.

As far as money is concerned, gathering the funding to grow the industry on the necessary scale remains a major problem.

The ILLA system provides the route to a solution.

- First, it will open up new purchasing power for guidance, by making guidance an eligible expenditure for tax relief, supported by all the key functions of the ILLA system. In particular the ILLA system, with its Learning Card, will overcome most of the difficulties and inefficiencies associated with past attempts to introduce local schemes using credits (vouchers) for guidance in the public sector.

- Second, the ILLA system will enable guidance workers, with the permission of the ILLA card holder, to access personal details and learning-related data immediately, so that valuable time can be saved in guidance sessions. This will improve productivity, with the potential to lower the cost of guidance by up to a fifth.

- Third, ILLAs make it possible to make a guidance element a condition of access to specific courses for. This will raise demand.

- Fourth, we propose what is, perhaps, the most important of a small set of mandatory percentage deductions from expenditures and redemptions passing through the ILLA system: a special deduction for guidance. This will create a fund for the Guidance Council to spend on reforming the structure and image of the guidance industry, and on promoting the value of lifelong guidance to individuals and to employers.

- Fifth, by the same means, the ILLA system can address the difficulty of supplying 'front-end' information to potential clients on market terms. In ordinary commercial life such information is nearly always supplied free at the point of enquiry - the cost being met indirectly as part of the price paid by eventual purchasers of goods and services. As well as paying for their own information, customers and clients also pay for the information provided for people who may decide not to buy a package of services. Guidance providers have not been able to make this sort of arrangement work for guidance.

These improvements in resources can be used to encourage the development of *lifelong guidance* to support lifelong learning. Lifelong guidance should provide a lifelong perspective, where a client and a guidance professional (or a 'group practice' of professionals) establish a relationship over time. This allows individuals to consult professionals in developing, monitoring and managing their unfolding personal strategies. This allows short term responses at times of crises to take place against a carefully considered, long-term background.

Statutory guidance - mostly for young people - does aim to encourage a longer term perspective. But the funding of most adult guidance outside formal education is much too fragile to allow the emergence of 'seamless provision' with a true lifelong perspective. The stronger finances of the ILLA system will help to

bring the lifelong guidance ideal to centre stage - at the heart of the desired culture shift.

Market forces

The ILLA system has been developed specifically to stimulate and serve an *inclusive* learning market. For some this may raise the spectre of laissez faire: a pure market-forces model which - it might be argued - could work against the interests of the non-learner, and against the desired cultural shift.

Several points help to allay these fears:

- a system which offers the prospect of putting more spending power in the hands of the learner does not *inevitably* mean that all the evils of unregulated competition among providers will break out. Nor does it mean that learners will lose all the advantages which such competition offers;

- it is worth remembering that the prevailing financing of learning produces a situation where about a third of learners are dissatisfied with some aspects of their courses; where the social mix of learners has hardly shifted for two or more generations; and where there is scant sign of any attempts to generate continuing client loyalty of a kind now familiar in the retail industries;

- the support for guidance ensures that many more individuals can, if they choose, take a longer term and dispassionate view of the choices which they are facing;.

- just like any national motorway system, the ILLA infrastructure has to be regulated if use is not to be chaotic and anti-social. There is nothing in the ILLA system which prohibits the Government and other public bodies from regulating its consequences. LEAs can oversee the local scene; regional committees can review overall provision; the UfI can mediate in the market place. All of these things are possible;

- more positively, the ILLA system offers policy handles which the regulatory authorities can use. Anonymous data on transactions provides information on recent trends; and the CTL function offers the Government a policy instrument which it can use to balance the learning market. This becomes a *mixed economy*, in effect, where the public sector can use conditional credits in efforts to reconcile public and private interests.

The rules of the game

A second area of possible concern is that the ILLA system may weaken the longstanding conventions about '*who pays for what*' in learning investment.

The conventions on *who pays* are vague rules, little more than etiquette, which have evolved over a period of time. They are far from uniformly or consistently applied. Their origin is obscure, but they seem to arise from a desire on the part of stakeholders to avoid the costs of having to keep agreeing and re-agreeing mutual solutions for the financial support of learning.

The key conventions are:

- the employer should pay for job-related learning;
- after initial education, the individual should pay for learning related to job change, personal advancement, and recreational learning, unless disadvantaged or too poor - in which case the State should pay.
- the State should provide the option of pre-school, primary and secondary education free to all comers;
- the State should part-pay for initial training, sharing the cost with employers;
- the State should also part-pay for initial higher education, sharing the cost with the individual - reflecting the fact that the individual normally secures an income premium from HE, and/or with the employer, who gets an additional benefit.

Our ILLA proposals are neutral with regard to these conventions. They do not require any of them to be applied; but neither do they require any of them to be altered. Some people think that, despite this neutrality, ILLAs might carry a risk that the State and or the employer would abuse the ILLA system by pushing financial responsibility onto the individual. They may also be seen as providing a ready base for turning voluntary credits and savings into legally enforced contributions on the part of employers and individuals, if politicians were minded to do so.

But there are several arguments to counter this *Don't rock the boat* attitude:

- for all their convenience, we note that the current conventions provide a basis for endless buck-passing, and typify the UK's anti-investment culture. Why should an individual pay, if he or she can 'swing it' on the employer or the local education authority? Why should the employer pay when the State has a duty to educate the nation? Such deferring to others,

whatever its justification, slows the process of investing in learning to a snail's pace;

- the conventions do not actively help lifelong learning, largely because they are not designed to encourage a sharing of responsibility: they tend to make it all or nothing. In a lifelong learning culture there should be simultaneous expressions of individual commitment, employers' commitment, and social commitment, with mutual investments reflecting the contributions of the different shareholders - which in their turn reflect the share of benefits they get.

- the conventions tend to militate against economic efficiency. This would normally require all the parties to a joint investment to contribute, instead of one party paying, and the rest free-riding. The conspicuous lack of mutuality in conventional learning investments is the symptom of a major market failure in the learning investment process;

- there are checks and balances which would act to prevent wholesale substitutions of investment taking place between the stakeholders under an ILLA system. If the Government 'dumps' onto employers or individuals, it can be held to account for its actions. If the employers dump onto individuals, the trade unions can respond. More than that, any employers who do it will find that their ability to attract and retain good staff will diminish, and productivity will suffer. The evaluations done for Investors in People, and the Employment in Britain Survey 1993 show clearly that employers who both take their responsibilities seriously, and work with employees to establish learning in the work place, achieve a competitive edge over other employers. So, tempting as the substitution might be, there are plenty of reasons to hold back.

We argue therefore that there is no need to be too concerned about the challenge to the conventions. Instead, the ILLA system should be allowed to work over a run of time to *replace* those conventions, reflecting, as they do, the old culture. It enables the various stakeholders to negotiate their way to agreed mutual solutions, supported by the IiP standard. This is an unqualified good thing in terms of moving towards a self-sustaining culture of learning. The ILLA system is designed to support cultural change. It works organically - like yeast in dough.

In our view the conventions cannot be rescued by interventions by the State. Resorting to massive public expenditure entitlements is politically unreal; resorting to mandatory levies on employers flies in the face of the realities of the flexible labour market. Forcing individuals to make contributions would be a suicide pact for any politician who proposed it.

All these attempts to bolster up the 'rules of the game' would be deeply hostile to the development of a mass culture of lifelong learning based upon individual and social commitment, and deeply damaging to the economy. It is far better that the stakeholders should be helped to reach their own solutions than that a rigid system of statutory requirements be imposed from above.

Widening participation in lifelong learning

A new funding infrastructure for lifelong learning must serve to widen participation in lifelong learning across the whole population. The ILLA infrastructure must work for all sorts of people, ranging from the financially experienced to those who - for economic or social or religious reasons - might not be able to save, or to use a bank account or a smart card.

Some commentators have argued that the ILLA system could be over the heads of many non-learners, as "not for people like us". There could be a rejection of smart card technology among people and communities where life runs on the basis of a cash economy and barter. We have already considered this. But the supposed rejection could be more broadly based, on the ILLA system itself. It might consist of a two-way rejection: of the system by the particular people, and of the particular people by the system.

There could well be grounds for thinking such rejection might happen. Any system or device designed to encourage learning will not readily appeal to people whose experience of school has left them positively motivated *against* learning, and against the formal institutions of a society which they feel has rejected them.

For the designers, however, the test of a new system is whether it is better than the present alternative, or whether there is any better approach to be taken. On this basis, there is much to be said in favour of ILLAs.

Concerning the technology:

- it would be particularly dangerous to assume that people in rundown areas were somehow incapable. Evidence from the development of smart cards globally, now proliferating for a wide range uses, encourages us to believe that people who genuinely need to save every free coupon from the back of the cereal packet know very well how to use credits/vouchers; customers on social benefit, for example, are not slow to seek out supermarket cards for credit points;

- if further research were to produce evidence of such client resistance, however, banks could supply 'cheque books' or credit tokens/vouchers in book form, for account holders who might initially resist using a smart card directly for payment.

Concerning the wider possibility of rejection:

- the ILLA system, while not primarily designed to meet the challenge of cultural resistance, does enable funding for learning to be made available through a form of outreach - using recognisable, community-specific routes such as clubs, community groups, and credit unions, for example. It would offer them opportunities to receive good guidance, probably for the first time in their lives; to gain a toehold on learning confidence, by using 'taster courses' offered by providers; and steadily to build up a commitment to learning, with a basis of funding to support it;

- the ILLA proposals also provide for a State bank of last resort to offer ILLA facilities to people who may be rejected by other institutions.

The conclusion from this is that ILLA designers can make a strong assault on any cultural resistance in areas of deprivation and little learning. Indeed there is every reason to think that the ILLA system would be a huge improvement on any alternative which the present system - with all its arbitrariness and chaos - could offer. Or into which it might ever develop.

Some people might dispute this conclusion, arguing that full public entitlements to learning, free at the point of delivery, are the only plausible answer in the difficult conditions which we are considering.

Our answer to this is twofold:

- first, ILLAs provide a means to draw bigger contributions to learning from employers, individuals, and (in the shorter run) lending banks. These release money for redistribution, so that if free entitlements are to be adopted in problem areas, it is because the ILLA system has enabled such redistribution.

- second, if money is to be found for problem areas, there is still the question of overcoming the lack of motivation. Using credits provides a direct means to build up individual and social commitment, which it is difficult for learning providers to match simply by laying on places and asking people to turn up. If there is money to be spent, the arguments of feeding it into ILLAs are very strong

Chapter Six

A strategy for the millennium

Introduction

In this final chapter our aim is to set out a strategy for implementing the proposed ILLA system, initially as a prototype for people in 'the world of work', followed by a roll-out to the full infrastructure.

We shall argue that:

- the Government should immediately press ahead with the introduction of a prototype ILLA system for the 'world of work';
- at the same time, the Government must not delay in committing to a full version of the ILLA system for the medium term; and,
- in earnest of that the Government should dovetail its ILLA policies into other important strands of strategy, and begin a progressive redistribution and targeting of its main post-16 education budgets, using credits in the ILLA system.

A prototype ILLA system

The Government and the major banks, together with a large list of supporters, are currently jointly examining the prospects for a prototype ILLA system. This would centre on three interlocking financing functions[10] - Save to Learn (STL), Borrow to Learn (BTL), and Credit to Learn (CTL). The hope is that they can pledge to support a developmental project to look closely at the feasibility, cost and implementation of the prototype. This could lead to the introduction of the prototype in the spring of 1999, three years ahead of the next general election if the Government goes to full term. The development would be a partnership between public and private interests.

On the back of the prototype system, the Government would introduce its promised one million learning accounts (1mA), targeting selective groups *in the 'world of work'*, i.e. groups chosen from people in employment or self employment, plus all those over statutory school-leaving age and under the age of 65 with the potential to be in employment. The 1mA scheme would run at least

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[10] See chapters Two and Three

until the end of the Parliament, financed by money from the TECs, and augmented in various ways by individual contributions, employer contributions, and money diverted from other public sector budgets. Up to £0.75 billion over three years seems a possibility.

This is a sizeable programme by any standards. As well as addressing immediate economic needs, it would aim to get non-learners launched into continuing lifelong learning. It is just the early boost which the prototype system needs to become well established. The targeted people would have credits to put into their ILLAs; and the fact that such large numbers would be opening accounts for this purpose will encourage others, who are not immediate recipients of the credits under the 1mA, to open accounts for themselves.

It seems very possible that the 1mA will be made available through regional partnerships in England, and through national partnerships in Scotland and Wales. These would choose their own priority target groups from a master list offered by the Government. It would be their task to raise employer contributions and other donations from local sources to swell the budget which backs the credits. Some partnerships would probably choose to present their scheme as a large scale employee development programme; others might opt for an economic development or basic skills perspective.

The design of the ILLA prototype

The ILLA prototype, presently being explored, is an *initial version* of the ILLA concept, which would be able to support a large number of credits in the 'world of work'. It would be followed on by a second stage to realise the full system.

Developing ILLAs by stages lessens the risk of designers becoming bogged down in technicalities before the basics are mastered. It also allows experience and competition to guide the completion of the design organically.

The prototype would provide a framework for the 1mA initiative. The million accounts are, in effect, packages of learning-related credits, placed for the Government's specified purposes into the CTL function of a million ILLA holders.

A prototype model offering just credits would fail. It must offer all three key functions - STL, BTL and CTL - if it is to carry the 1mA exercise properly.

CTL is needed simply because the 1mA recipients will have credits to spend on a variety of purposes. Furthermore, these credits will need to be joint credits, where one redemption triggers another. This reflects the intention to have a small personal contribution from the individual, to match the contribution from the public purse - broadly at a ratio of one to six.

The individual must also have savings and borrowing facilities (STL and BTL), not only to help raise the individual contribution required for the 1mA holders,

but also to ensure that the accounts continue to support ongoing learning once the initial credits have been redeemed. *It is important to remember that the aim of the 1mA is to launch recipients into lifelong learning.* It is not just a credit device to celebrate the millennium.

In the prototype, interest tax relief (ITR) and vocational training relief (VTR) are added to the three key account functions.

- ITR provides a general incentive, worth about 7 percent of cost, to people who use the STL and BTL functions. Without this incentive it will be very difficult to make it worthwhile for individuals to hold ILLAs, and in particular to use them to support ongoing learning once the 1mA credits are exhausted. It would be odd in the extreme if the Government continued to support mortgages and general savings with tax relief, largely to the benefit of wealthier citizens, while refusing to do the same for the learners whose continuing learning has become so vital to the nation;

- VTR provides a particular incentive in the form of a discount on purchase. We argued earlier that the present restricted definition of the kind of learning which is supported needs to be greatly widened beyond what is currently almost entirely for the purposes of vocational qualifications (NVQs/ SVQs). But in the immediate context of the 1mA exercise it is unlikely that this can be afforded. We propose, therefore, that the prototype ILLA system should be supported by a VTR facility, which - in its main requirements - is much as it is now.

Figure 10: Key financial ingredients of the prototype model

ITR +	VTR +	STL +	BTL +	CTL
interest tax relief	vocational tax relief	save-to-learn function	borrow-to-learn function	credit-to-learn function

The key financial features of the prototype are set out in Figure 10, and the financial differences between the prototype and the full ILLA system are summarised in Figure 11 below. Alongside the financial items, there would be two UK-wide databases, both essential to the prototype. The first records each learner's learning activity and learning achievement. The second brings together a nation-wide catalogue of learning opportunities eligible for interest relief. This database would also support the Learning Line.

Once up and running, this prototype system would be available for *everyone* to use. There is no reason to assume that people's only purpose in taking out an ILLA is to receive one of the 1mA packages. Indeed, given the proposed use of interest tax relief, and the widespread involvement of the banking system, such assumptions would be very difficult.

Figure 11: The prototype and the full ILLA system

Main Financial Differences

TAX RELIEF: in the prototype VTR remains substantially as now. It is not widened into LTR.

GROUP ACCOUNTS: no group accounts in the prototype.

EXISTING CDL LOANS: the prototype system will allow a policy (i) to shift existing CDLs into ILLAs; (ii) then to be worked off, with the Government using the ILLA framework to pay subsidies on interest during the period of learning, and also (iii) buying out bad debt, much as now.

NEW CDLS: the Government would withdraw from the less risky end of the CDL market, leaving it to be carried by the commercial loan facilities in the ILLA, while continuing to develop a version of CDL+ for borrowers with a weaker credit rating. This would allow temporary breaks in repayments, as is done for student loans.

STATE STUDENT LOANS: i.e., those covering maintenance for first time students in Higher Education - these would be treated as separate from and outside the ILLA arrangements. Loans to support students over and above State loan facilities would however be made in ILLA accounts held by students.

STATE CONTRIBUTION TO STUDENT FEES: for the prototype model, we would not envisage the Government moving to put its contribution into credits for individual students to spend (CTL). This step would be taken later.

DEDUCTIONS: for the prototype we propose that all ILLA holders be asked to subscribe to given deductions voluntarily, in much the same way as people can opt for pay deductions to support chosen charities. It would be premature to push for mandatory deductions until the ILLA system is well established.

On this basis we can anticipate that there could be a *general* introduction of ILLAs by the banks[11] to begin around April 1999. The 1mA exercise will prompt large numbers of people to open ILLA accounts, so that their credit can be processed. But accounts can, and will, be taken out by others.

If the forthcoming November 1997 White Paper on Lifelong Learning paints such a scenario, it will be warmly welcomed. The news that - *at last* - a British government is facing up to the need for a new, individually- centred, financing framework for lifelong learning will be widely celebrated.

The need for a medium term strategic commitment

The Government will need to create forward momentum for the development of the full ILLA system, if the euphoria over the prototype is to last. Otherwise, by the time the next general election comes round, there will seem to be a lack of Big Ideas on lifelong learning to offer the public in the manifesto. Moreover, the 1mA initiative might soon begin to look like a one-minute-wonder. Given experience in recent years, people would need to be convinced that - after an initial flurry with the 1mA - the public sector will *not* use ILLAs to cover the State's withdrawal, drawing upon the rhetoric of 'self sufficiency' or the 'employers pay' principle.

The Government must declare the political dynamic for future growth, if people are to be convinced that the long-term possibilities will be realised. Unless this is done, the present, deeply embedded culture - which excludes the majority of the population from lifetime learning - will not be shifted, even by the prototype model. If the public were convinced that that the prototype was the beginning of a wider programme, sufficiently radical really to change the situation, it would create a bow-wave of forward expectations, and gather energy to itself. This would help the prototype to be come established more quickly, and open the way to major culture changes beyond the next general election. The ILLA infrastructure could then display its potential as a key element in the Welfare State for the twenty-first century.

The signs are promising that the Government *will* make this commitment. After all, the present Government is the first ever to be elected on a lifelong learning ticket. Its three priorities are, "Education, education and education."

Optimism cannot, however, be unqualified. Getting this far will still mean overcoming the cultural and organisational separations which tie down the Department for Education and Employment. These influences are largely responsible for the separation of initial education policy from the theme of lifelong learn-

[11]Banks are defined broadly in this paper, to include building societies, retail banks, credit unions, and other reputable financial institutions

ing. There is already concern that when this Government says 'lifelong' - like its predecessor - it actually means 'adult'. Or 'post-initial education', at most.

Establishing a lifelong learning strategy, with ILLAs at its core, means nothing less than constructing a *cradle-to-grave* continuum in policy and in practice. Such a strategy must visibly emerge by the mid-term of this first Parliament. Without it, the Government risks finding itself in the cynical cul de sac which trapped the last government in its closing years - rich in rhetoric, but poor in substance.

Three further steps for the Government

The Government can build political momentum by implementing the prototype ILLA system, set out in chapter 5, as a first step. There are three further steps it should take. The Government should:

- fill out the ILLA system itself to its full potential. There are important differences between the prototype model and the full model for the authorities to address;
- establish links between the ILLAs and other emerging themes of political development;
- use the credit mechanism to refocus onto the non-learners the large public expenditure flows which currently support learning post-16. This involves large changes to the institutional fabric of the learning market, to widen the learning chances of the majority of the population.

All these steps serve the national interest. The first two of them would also offer clear political advantages in the approach to the next election. The third is for the resolute. But if the Government has the political will, this too can produce a political bonus, accruing throughout the next Parliament.

Step one: developing the full ILLA system

The Government has *eight main opportunities* to fill out the ILLA system. They are presented below.

- *First, the Government should move to widen VTR by the end of this Parliament.* Recalling that VTR is available to non-taxpayers as well as taxpayers - the more the scope of VTR is broadened, the greater the benefit from discounted purchases for non-taxpayers. The continuing narrowness of VTR represents a failure to deliver a strong incentive into the third of the population whose learning is sparse and sporadic; and into the core of non-learners themselves. Although broadening will cost money, unless it is attempted there will not be enough incentive left in the tax relief arrangements to sustain a broad-based improvement in penetration into

the non-learning population, once the effect of the 1mA initiative has worn off. The middle classes will use the ILLAs for purposes which reinforce the present middle-class learning culture, rather than reform it.

- *Second, the Government should support the banks in developing group accounts, with appropriate tax relief.* These are accounts offering incentives through the tax relief arrangements which are held by groups of individuals, and are treated as if they were held by lone individuals. Members of the groups can call upon the 'group ILLA account' for learning support. These arrangements have some affinity with the credit union concept.

- *Third, the Government should integrate student finance with the ILLA system, and widen its scope.* There will be no connection between student loans and State payments towards fees for first-time higher education and the prototype ILLA system. The banks will find this difficult to live with.

  We recommend that the Government should draw these student arrangements into the ILLA system before the end of this Parliament. On loans there is a good prospect of overcoming the tedious and irrational public expenditure rules which currently block full privatisation, by using the CDL legal powers and by drawing on the banking system to raise the capital, outside the boundary of public expenditure. On fees, use can be made of the credit function to put the purchasing power directly into the hands of the clients, a measure supported by the Dearing Inquiry for the longer run.

  At the same time the switch to ILLAs should allow the Government to abolish restrictions on student finance which bear strongly against older students, part-timers, and further education. Doing this would keep faith with the Kennedy Committee's report. It would also stand the Dearing Inquiry philosophy on its head: instead of arguing that ILLAs would be fine if a cultural change has already arrived, the argument should be that the policy change is needed to help make the culture change a reality.

- *Fourth, the Government should rethink career development loans.* The prototype system does not define precisely what the Government should do to help those people to borrow who have a sound idea for learning. Unless this policy gap is filled, the ILLA system will not address what is one of the biggest, and best documented, market failures in the learning area, and borrowing will remain largely a matter for the relatively wealthy. Generally, it is far better for the Government to support borrowing with risk-covering arrangements, than to resort to paying in full for the learning through direct public funding of providers or through credits.

The Government should therefore examine how it can bring greater assurance to borrowers who might be unduly deterred by risk. It could do this by developing a general guarantee scheme, enabling borrowers to look to Government for short term assistance - rather like the arrangements for students - if repayments fall into temporary difficulty

- *Fifth, the government should trial a voluntary insurance fund for employers whose workers choose to move away unexpectedly.* The ILLA credit mechanism can, in principle, be used to provide a voluntary insurance fund for employers, which will protect them from loss of investment in learning when workers they have trained leave unexpectedly. It would work by creating a 'mirror image' credit in favour of the employer against a national compensation fund. This would be made up of voluntary contributions- akin to insurance premiums - which would be taken as a small percentage cut from the flow of employers' credit redemptions. These credits could be called in the event of the worker leaving the employment within a specified period.

  If this insurance procedure can be made to work it could have a major bearing on the policies to increase the propensity of employers to invest in the skills of their workers, including some of those who are casually or temporarily employed.

- *Sixth, the Government should develop a system of mandatory deductions to strengthen lifelong learning.* The prototype system incorporates the idea of voluntary contributions from the flow of transaction payments. There is a good case for making these mandatory, so that learners can pay for wider benefits which they cannot easily pay for directly. The funds raises could be distributed to: the Campaigns for Learning, in England and in Scotland; the Guidance Council for the improvement of guidance and information infrastructure; a Learners Protection Fund; and an Outreach Fund, which could be directed at non-learners in areas where social problems are especially acute. Perhaps here is the solution to the riddle of who is to pay for the general promotion of the learning market.

- *Seventh, the Government should develop a rights package to go with ILLAs.* The prototype incorporates an eligibility test for interest relief which centres on learning gain and assessment, but it avoids any quality kite marking of providers. A package of protections and rights for ILLA users would be a very useful next step. It would enhance confidence and motivation in the face of much evidence that a large minority of learners get less than the best from their learning providers.

  For instance, there could be a requirement to lodge up to date and regular information on courses and learning packages with the relevant

data bases; there could be a charter of purchasers' rights of redress, and money-back guarantees; there could be a complaints procedure, which in the ultimate could put a providers' registration at risk. We recommend that the Government should explore all these possibilities.

- *Eighth, the Government should develop the idea of an association of all ILLA holders.* There are significant opportunities open to the Government and its partners to use the ILLA system to create a large and active association of lifelong learners, who can be approached with information, special offers, awards, lottery chances, etc. Some of these opportunities will go to the participating banks, but many others can be picked up and used by the University for Industry and other bodies for promoting various aspects of lifelong learning. Indeed the holders of ILLAs could all become members of the University for Industry - especially if it were more appropriately named the 'University for Lifelong Learning'.

All these possibilities for 'gap filling' are worth looking at closely. There is enough potential here to make a large and exciting contribution towards momentum for cultural change.

Step two: policies travelling together

As ILLAs come on stream, there will be major opportunities for using them in tandem with other areas of Government policy: savings policy, unemployment policy, regional and national devolution; the whole set of learning policies - those which come under the heading of the University for Industry, those relating to records of achievement, and training time off for 16+ school leavers in employment, to name but a few.

- *Savings*

  Unless steps are taken, there will be no formal link between the ILLA savings function, STL, and the new individual savings accounts which the Treasury are preparing to launch in 1999.

  In the past there has been some interest in the ' Training TESSA' idea, where long term savings can be promoted by interest tax relief, but allowing money to be withdrawn beyond the usual limits for TESSA withdrawals (basically the growth element in the value of the Account) for the sake of learning. In a mature system of ILLAs it is possible for the STL function to carry longer term savings. Bearing in mind the Treasury's announced intention to reformulate TESSAs and PEPS to benefit less well-off elements of the population, making a link with ILLAs is attractive. This has the potential to bring into the scope of the learning system enormous flows of deposits.

This link could, for example, be achieved by allowing ILLA holders a special STL holding attached to the ILLA which ties up money for (say) five years, after which its accumulated value - including the value of interest relief, can be cashed in for general purposes. Meanwhile there would be a facility for unlimited withdrawals for learning under the ILLA arrangements.

- *Pensions Policy*

  At the general level there are very close affinities between the nine fundamental challenges of the Government's new pensions review and the objectives of the ILLA system. ILLAs help people to 'plan for their long term future', 'respond to social and labour market change', ' improve the level of financial education', and so on.

  At the more practical level, ILLAs are relevant to preventive action which people may take through learning and up-skilling to secure an adequate income in later life; and they bear directly on the issues of learning for and in retirement. They are therefore at the heart of the agenda of the Older and Bolder campaign sponsored by NIACE.

  To make more of this, arrangements should be made for pension funds to be a source of deposits for use in learning, in the event of unemployment or serious dislocation in an individual's chosen career path. This would build on facilities which many funds already have for people to access a portion of pension funds for immediate spending purposes, when special needs arise.

- *Unemployment Policy*

  There are important links to be forged between unemployment policy and ILLAs. Three possibilities stand out:

  - *Link the ILLA system and the National Insurance Fund.* At present National Insurance covers sickness and unemployment. There is no reason why it should not cover learning as well. The State currently makes funds available for reskilling the unemployed. It does this through training programmes, soon to be refocused in the 'Welfare to Work' initiative, and also through learning under the 16 hour rule, for which there are subsidised fee remissions in FE. Without making ILLAs part of the compulsory national insurance system, Government could allow sick or unemployed people to negotiate transfers for learning from the national insurance fund into the ILLA accounts. This might be used as a mechanism for dealing with the new training option in the New Deal. These possibilities include giving people an opportunity to

aggregate prospective benefit payments into a lump sum, to allow a programme of reskilling or upskilling to take place.

- *Provision for redundancy.* In a similar way the ILLA prototype will not have explored the opportunity to reorganise the redundancy pay provisions, and the tax relief arrangements for redundant workers receiving support from the erstwhile employer to undertake learning. Once the ILLAs exist it becomes very attractive to use them to ensure that redundancy can lead on to effective reskilling. Redundancy payments, either in whole or in part, could be made into ILLAs in the first instance - either into STL, or into CTL if the Government wishes to be more directive. Non-learning withdrawals could be made readily from STL, subject to back tax adjustment on accumulated interest.

- *Unified budgets.* Under the ILLA system, once the credit framework and other financing possibilities are available, it becomes possible to unify public learning budgets for the unemployed. Unification would make it possible to create a new credit, ending the age-old controversies over the 16-hour rule. A number of sources of funding could be brought together, and issued as a credit to defined eligible groups. These include money spent in the Employment Service on educational guidance and training for unemployed people; the funds used in FE to subsidise courses for the unemployed; the TEC Training for Work budgets; and any other funds for special programmes for people in unemployment.

  The TECs would have a prior cut of the national budget to enable them to add associated joint credits shaped to the needs of the localities which they serve. This could be channelled through local learning partnerships. Such credits could be extended by other facilities in the ILLA.

- *Devolution*

  The ILLA system offers major benefits for devolution. The infrastructure itself is truly national. The ILLAs are portable, and the cash value which they contain travels across geographical boundaries and across occupations. The tax relief incentives are likewise standard across the whole of the UK, whether or not Scotland achieves tax-raising powers.

  On the other hand, CTL (the credit function), and BTL (the loan function, where Government can intervene to assist in spreading

the risk on learning loans), are both instruments through which regions and devolved Scotland and Wales can apply their own characteristic priorities to the learning market. Paragraph 6 above showed how, in the administration of the One million Accounts scheme, Partnerships for lifelong learning can be used to control the allocation of credits in the ILLA system. If funds are progressively being released from block institutional funding (see below), we can look forward to growing opportunities for giving the different parts of the UK their own voice through credits and subsidies to BTL. In this way the learning system can dovetail with great effect into efforts made at sub-UK level towards social and economic regeneration and development.

- *University for Industry*

We note that the argument for a University for Industry concerns creation of an infrastructure. Here the emphasis is not so much on finding the money for learning. It is mainly about providing a better infrastructure for the learning market place itself.

Much is needed to achieve this: for example, reliable and fully accessible catalogues of quality-rated learning products; quality assured guidance; clear trading rules which give confidence to both buyer and seller; effective competitive pressure, with few barriers to entry and with the active discouragement of monopoly. To address these matters the UfI would have to intervene in the market place, to tie up loose ends, identify unmet needs, improve the flow of information, and kite-mark products for client assurance.

At the heart of the UfI's remit - perhaps more important than all the other matters - is a concern that the use of IT-based methods of learning, and the availability of open and flexible learning materials of high quality (once a source of pride for national achievement) has slumped into conspicuous market failure. The UfI will enter the market as a broker to correct this central failing.

ILLAs help by :

- providing a stronger infrastructure for guidance;
- using definitions of learning purchases which get away from courses into the wider notion of packages of services and materials;

- supplying a data source for learning transactions and outcomes which can be analysed (anonymously) to identify relevant trends;
- providing the basis through the qualifications data base for a system which confronts learners with the obsolescence of their skills and knowledge;
- giving the opportunity through credits to support learning undertaken by particular learning technologies;
- assisting in the promotion of better customer protection standards through kite marking of providers;
- giving a basis for market research of learners with accounts;
- providing - through group or individual ILLAs - a base for an association of lifelong learners, perhaps more appropriately named 'the University for Lifelong Learning'.

It is clear that steps to be taken in the latter part of this Parliament to widen the application of the ILLA system will offer major possibilities to those working on the UfI. Success for the UfI will work very much to the advantage of the ILLA holder, raising learner confidence and reducing miscues in the making of transactions. The Government should organise itself to take advantage of these favourable, mutually-reinforcing possibilities.

- *Other Learning Policies*

There are very few areas of learning policy which would not be touched in important ways by the emergence of ILLAs. Two areas where it seems likely that there would be valuable cross-fertilisation illustrate the need to look for maximum synergy:

- there is a clear link between the ILLA system and the Government's commitment to require anybody under the age of 18 and in a job to have the right to study on an approved course for qualifications at college;
- the proposals for a learning and qualifications database for the ILLA system could at last provide the basis for an effective record of achievement for the adult population, which would stand some chance of travelling with the learner throughout life.

There are doubtless many other such fertile links to be pursued.

Step three: refocusing public expenditure on the non-learners

Our goal is a universal, inclusive learning market, where everybody can express their learning preferences effectively. If everybody is to have an equal chance of participating, the State needs to find ways to include those who are currently excluded. This means redistribution. *More participation means more redistribution.*

Installing the full ILLA system and seeking synergy between ILLAs and other policies can make an important contribution to this objective. Relevant elements include: arrangements for wider VTR (LTR); supported CDLs; links with the National Insurance Fund; redundancy and unemployment credits; greater customer protection; club services; group accounts; and mandatory deductions which can help with outreach. Taken together, these would have considerable redistributive force.

But much more is needed to shift a pattern of learning that has proved notably obdurate in the face of past efforts at reform. An additional, powerful force for redistribution would be a concerted plan by the Government to reorder the ways in which the *£10 billion p.a. of public resources* for post-16 learning are fed into the learning market. The ILLA system can be used for diverting some, or indeed all, of the funds which are currently fed to providers via intermediaries, e.g. funding councils, training and enterprise councils, and local authorities, direct into the ILLAs of individuals, in the form of conditional credits. With proper attention to targeting priority groups this switch could revolutionise the pattern of learning in the UK - and it is the only thing which will.

At present the Government relies upon 'backdoor' funding of institutions, largely by formula, to support the nation's initial education system. The institutions create places for which learners apply. For some groups the places are free; others pay a partial fee, by virtue of the state subsidy. This approach contrasts strongly with a policy to put the purchasing power with the individual through a credit system, giving choice to the learner within set boundaries.

With 'backdoor funding', it is for politicians, funding councils and college governors - often supported by panels of public spirited people - to determine the mix of learning opportunities offered to the learning market. The individual has the relatively passive role of accepting or rejecting the options offered. With a credit system, it is the customer's purchasing power which motivates the providers, subject to whatever restrictions apply to the credits. Experience with these two, very different, approaches points to three conclusions:

- The first is *that on the backdoor funding approach there is a tendency for the pattern of participation in learning to remain stuck in the long established mould of middle and upper class dominance.* The recent Kennedy Committee and Dearing Inquiry have both shown how intractable is the problem of widening participation to all social groups. This means that, whatever the intentions of the

politicians and the funding councils, there is an intrinsic middle class bias to the 'intermediary' system, so that in the front of every queue for state-funded places are the middle classes. Although there may be ways of breaking this down, neither the 'Dearing' nor the 'Kennedy' committee is confident that this can be readily achieved in practice.

- The second is *that money going through backdoors does not in any significant degree lever into place other monies from different stakeholders.* The TECs, by common recognition, have been quite successful in leverage of contributions, but this contrasts greatly with the colleges and universities. By comparison the credit approach almost invites leverage from other sources.

- The third is *that targeting selected groups of underprivileged people with credits requires a sustained campaign to find the chosen groups, and to interest them in learning.* Time and again credit issuers have underestimated the time and marketing effort it takes to find the selected clients and interest them in the use of credits. For effectiveness, broad definitions of target groups are much to be preferred to highly selective ones.

These points strongly suggest a switch over to credits, but also that the switch needs to be done progressively, at a pace which can be managed effectively. Using the ILLA system, each pound switched will help to gather extra pounds from other players in the learning market, and nourish individual and social commitment. If in consequence wealthier people have to pay more for their learning, that in turn releases public money to bring non-learners to the table. Those who are not able to save or borrow readily for learning need credits to help them to take their place in an inclusive learning market. The credits which these people need can be paid for by the larger personal contributions from wealthier sections of the population. Here is the painful policy crunch: those who already have the most must be asked to support *competitors* for the privileges they currently enjoy.

Both the Kennedy Committee and the Dearing Inquiry reports hint at this conclusion, but fail to recommend it unequivocally. This reflects the long standing culture of control which the educational institutions have exerted over the supply of learning to the learner - as well as an understandable weariness at the thought of the upheaval which a major switch of funding would entail.

If, however, half way through this Parliament, the Government wants to bolster its lifelong learning strategy, and to build on the prototype system of ILLAs, it must begin preparing *now* for a policy of progressive switches to individually-based funding. This would begin with partial switches of post-19 FE and HE funds in favour of particular groups, and prepare for a bigger switch after the election - giving the major theme of lifelong learning policy in that Parliament.

Policy of this kind would give time for the ILLA system to get established, and for the Government - working with regional learning partnerships and using their experience of the One Million Accounts - to find effective ways of identifying the people to benefit from the diverted funding.

On the hustings the political message would be that:

> *the New Labour Government is giving the highest priority to learning policies which will fight social exclusion and build a new lifelong learning society for the twenty-first century. By doing so it will produce a more efficient, modern economy than anything which the current, inequitable learning culture can hope to achieve.*

Some short run instabilities of cash flow for learning institutions, arising while the learning market adjusts to the switches, would have to be dealt with. But there is no reason why transitional funding arrangements should not be introduced to damp irregular swings. There are many treasurers of colleges and universities who are exhausted with the existing erratic squeezes produced by the present funding council systems, and would welcome an agenda of this kind, with proper transition arrangements in place over a reasonable period.

Making progress

In this book we have argued that the crucial objective of lifetime learning policy is to change the pattern of learning towards wider participation *and* lifelong learning - even if it might mean some lose of volume growth in the interim period. We have shown that individual and social commitment, and the commitment of both sides of industry, all have to be fostered if this change is to be achieved.

The introduction of a prototype system of ILLAs in 1999 would be a major step towards the prospect of a culture of lifelong learning. But to get full value, that step needs to be part of a wider strategy for lifelong learning. And it must lead on to a compelling succession of other steps.

In this final chapter we have seen how commitment to filling out the ILLA system, working to link ILLAs strongly to the Government's wider policies, and opening up a progressive switch of resources towards the ILLAs, provide an exciting agenda for the latter part of this Parliament and for much of the next.

We ask the Government to lead this process. Unless these opportunities are taken, progress towards lifelong learning for the mass of citizens will remain a dim prospect.

Also published by NIACE:

The learning divide: A study of participation in adult learning in the United Kingdom
Naomi Sargant with John Field, Hywel Francis, Tom Schuller and Alan Tuckett
ISBN 1 86201 016 1; 144 pp, £20.00 inc p&p (UK)

The learning divide reports on a survey funded by the Department for Education and Employment, carried out for NIACE by the Gallup Organisation in early 1996. It highlights the full scale of the challenge which the UK faces in involving all its people in the learning society, and shows that the learning divide between the learning-rich and the learning-poor is growing.

Amongst its findings: three in five of all adults have not taken part in adult learning in the last three years; more men than women are currently learning or have been recent learners; age is a barrier to participation; length of initial education is still the single best predictor of participation in adult learning.

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Individual lifelong learning accounts: towards a learning revolution

Jim Smith and Andrea Spurling

The idea that many of the barriers to the creation of a learning society in Britain could be overcome by fundamental reform of its financing is not a new one. Proposals have been put forward from time to time to create some form of individual account or entitlement as a way of redistributing resources, or widening access. However, such proposals have rarely been accompanied by any detailed analysis of the practical implications, and until very recently, the administrative complexities of such a scheme have seemed insuperable.

The arrival of a new Government, with a strong commitment to education and training and to social inclusion, but facing severe resource constraints, has brought this issue back into public debate, at a time when new technologies offer the possibility of overcoming some of the practical difficulties. Could such a system help to achieve the widely agreed objectives of universal participation in lifelong learning? How would it work, and could the administrative and technical hurdles be overcome?

This book attempts to answer some of these questions. It is based on a thorough study of the possibilities, including consultation with key interests, like the financial services industry, who would have a central part to play in any new system. It argues the case for a major cultural change in how we think about and manage lifelong learning, and proposes a model for a system of Individual Lifelong Learning Accounts.

The debate on whether this particular approach is the best way of addressing the urgent issues of raising educational levels and increasing social inclusion is a critical one. For the first time, this volume offers policymakers, institutional managers, financial institutions and all those interested in the future of lifelong learning, a thought-through, concrete proposal, as a basis for an informed debate.

NIACE, the national organisation for adult learning, has a broad remit to promote lifelong learning opportunities for adults. NIACE works to develop increased participation in education and training. It aims to do this for those who do not have easy access because of barriers of class, gender, age, race, language and culture, learning difficulties or disabilities, or insufficient financial resources.
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